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FOOD AND AGRICULTURE ACT OF 1965

HEARINGS BEFORE THE COMMITTEE ON AGRICULTURE AND FORESTRY UNITED STATES SENATE EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

S. 399, S. 598, S. 891, S. 939, S. 994, S. 1563,
S. 1702, S. 1794, S. 1838, S. 2025, S. 2079, S. 2110,
and S. 2111

BILLS TO MAINTAIN FARM INCOME, TO STABILIZE PRICES
AND ASSURE ADEQUATE SUPPLIES OF AGRICULTURAL
COMMODITIES, TO REDUCE SURPLUSES, LOWER GOVERN-
MENT COSTS AND PROMOTE FOREIGN TRADE, TO AFFORD
GREATER ECONOMIC OPPORTUNITY IN RURAL AREAS,
AND FOR OTHER PURPOSES

PART 1

JUNE 16, 17, 18, 21, AND 22, 1965

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FOOD AND AGRICULTURE ACT OF 1965

WEDNESDAY, JUNE 16, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington D.C.

The committee met, pursuant to notice, at 10 a.m., in room 324, Old Senate Office Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender (presiding), Jordan, of North Carolina, McGovern, Montoya, Mondale, Russell, of South Carolina, Aiken, Young, of North Dakota, and Cooper.

The CHAIRMAN. The committee will please come to order.

Today we begin hearings on agricultural legislation covering most of the major commodities. We expect that all proposals dealing with feed grains, wheat, cotton, rice, wool, and dairy products will be reviewed fully by those who have an interest in them. In addition to the major commodities we desire to review the recommendations of the Department of Agriculture regarding the extension of the conservation reserve program and the lease and sale of allotments. It is my intention to review the present programs and the recommended changes as to their effect on farm income, stock accumulation, and Government costs.

I desire to say at the outset that my attitude and the questions I will ask, and I am sure this applies to the rest of the committee, does not necessarily reflect my position on any particular issue. Rather, it has been my policy to take the negative side of any proposal in order to obtain a better understanding of the recommendation.

Agriculture has made a very substantial contribution to the economic welfare of this Nation. Its efficiency and productivity have made it possible for this Government to undertake a program to sustain and upgrade the diets of millions of people throughout the world.

The substantial contribution that agriculture has made all over the world should not be ignored or forgotten when we begin to discuss the merits of our agricultural programs. Assuredly many of them have been costly, but they have made it possible for agriculture to increase its efficiency and its productivity. These programs have prevented economic chaos in the agricultural segment of our economy. I am firmly convinced that had these programs not been in effect in past years our production would resemble the depressed state of the agricultural economies we find in many areas of the world. It is my hope not only to preserve but to strengthen our agricultural programs and to assist our farmers in obtaining a greater share of the good things of life.

Some of the major bills that we have before us are:

S. 1702, the administration bill, would provide for temporary extensions of the wheat, feed grains, wool, and conservation reserve programs; allotment transfers; and a rice marketing certificate program.

S. 598 and S. 939 provide for permanent voluntary wheat marketing certificate programs, with domestic support at full parity.

S. 2025 provides for a permanent voluntary wheat program under which producers would receive not less than \$2 for all wheat produced and processors would pay full parity for wheat for domestic food consumption.

S. 891 provides for a "cropland retirement program," repeals wheat marketing quotas, allotments, and certificates, reduces support levels for wheat and feed grains; and increases the minimum CCC resale price for wheat, feed grains, soybeans, and flaxseed to 125 percent of the current support price, plus reasonable carrying charges.

S. 2110 provides for marketing quotas for feed grains, with price support at 65 to 90 percent of parity; and extends the cotton domestic allotment program until supplies reach reasonable levels. It would not extend the mill subsidy program.

S. 2079 provides for reducing the cotton support level to 28 cents in 1966, 27 cents in 1967, and 90 percent of a 3-year average price thereafter. It extends the mill subsidy at a 4-cent-lower rate for 1 year, increases the minimum CCC cotton resale price, and authorizes payments of 8 cents per pound for 3 years for permanent release of allotments.

S. 2111 provides for a permanent rice marketing certificate program with full parity for domestic consumption, existing quotas and allotments, and a 4-year transition to the requirement that processors purchase certificates for all rice for domestic consumption.

S. 994 would extend the wool program 7 years without change.

S. 399 provides for allotments of class I milk under marketing orders. S. 1563 provides for payments and higher support levels for milk and butterfat.

In addition to these commodity bills, the hearings will cover S. 1766, which provides for grants and higher loans to associations for rural water systems and land-use changes, and increases the Farmers Home Administration insured loan authority.

Now, copies of the bills just mentioned, and staff explanations of all except S. 994 which needs no further explanation, will be inserted in the record at this point.

(The bills and explanations are as follows:)

[S. 399, 89th Cong., 1st sess.]

A BILL To amend the Agricultural Adjustment Act, as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended, and to encourage the reduction of excess marketing of milk, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Agricultural Adjustment Act, as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended, is further amended by adding at the end of section 8c(5) the following new subparagraph (H) :

"(H) Notwithstanding any other provision of this section, providing :

"(i) for allocating, or providing a method for allocating, to each producer under a marketing order, a share of the total sales of milk received from producers classified in, and subject to the minimum price or prices applicable to, the highest use classification or classifications under the marketing order

and such reserves of producer milk as may be found essential thereto, which share shall be determined on the basis of total deliveries of milk made by each such producer during the year 1964, or such other representative period as the Secretary may prescribe in the order as more appropriate, due allowance being made in the provisions of the order for (a) abnormal conditions, (b) hardship cases, and (c) producers under the order engaged in milk production at the time provisions hereunder are incorporated in the order but who did not produce milk during all or part of the representative period. Dairy farmers who were producing and marketing milk prior to the date when provisions hereunder were incorporated in the order and who were not on such date delivering milk as producers under the order shall upon becoming producers under the order be provided, with respect to milk delivered under the order, allocations on the same basis as those who were producers under the order when such provisions become effective: *Provided*, That if any dairy farm of such a dairy farmer has been transferred to another person and no allocation based on deliveries from such farm has been issued when milk is first delivered therefrom as producer milk under the order, such transferee then operating the farm shall be provided any allocation for which the said dairy farmer would otherwise have been eligible based on deliveries from such farm. Provisions shall also be made for allocating to any new producer under an order who was not engaged in dairy farming prior to the incorporation in the order of provisions hereunder an equitable share of the allocated sales on such terms and conditions as prescribed in the order, due consideration being given to the current and prospective supply conditions in the regulated market. The application of allocations hereunder shall be subject to such provisions as may be incorporated in the order under section 8c(5) (D). Allocations to producers under this subparagraph may be transferable under an order on such terms and conditions as may be prescribed if the Secretary of Agriculture determines that transferability will be in the best interest of the public, existing producers, and prospective new producers. The allocations or bases hereunder may be adjusted from time to time or new allocations or bases may be established by amending the order or under provisions incorporated in the order;

“(ii) that in distributing to producers the amounts of money required to be paid by handlers on milk each producer shall be paid (1) for milk delivered by him which exceeds his allocation at the lowest class price specified in the order and (2) for milk delivered by him within his allocation a blend price, based on utilization in such higher class uses plus reserve, representing his pro rata share of the remaining funds available for current distribution to producers under the order, after the computation has been made under (1) hereof. The payments under (1) and (2) above shall be subject to adjustments prescribed in the order under section 8c(5) (B) or other provisions of the Act and to such provisions as may be incorporated in the order under section 8c(5) (D) ;

“(iii) in marketing orders where individual handler pools are approved as provided by subparagraph 8c(5) (B) (i) the provisions of this subparagraph may be applied to each handler individually and to the producers delivering milk to such handlers ;

“(iv) in the case of any producer who during any accounting period delivers a portion of his milk to persons not fully regulated by the order, provision may be made for reducing the allocation of, or payments to be received by, any such producer to compensate for any marketings of milk to such other persons for such period or periods as necessary to insure equitable participation in marketings among all producers ;

“(v) the order may provide for such reports and the keeping of such books and records by producers and by the person or persons to whom he may dispose of milk as the Secretary may prescribe and upon request of the Secretary such person or persons shall make required records available for inspection ;

“(vi) the provisions authorized under this subparagraph may be made applicable to a regulated handler's own production of milk ;

“(vii) order provisions under this subparagraph shall not become effective in any marketing order unless separately approved by producers in the same manner provided for the approval of marketing orders. Disapproval of order provisions under this subparagraph shall not be considered disapproval of the order or of other terms of the order. Order provisions

under this subparagraph may be terminated separately whenever the Secretary makes the determination with respect to such provisions as is provided for the termination of an order in section 8c(16) (B) ;

“(viii) any producer for whom an allocation or base is established under the authority of this subparagraph may obtain a review thereof as prescribed by the order and rules and regulations thereunder, which shall constitute the exclusive procedure for review thereof and section 8c(15) (A) of this title shall not apply thereto. Under such order, rules, or regulations any officers or employees of the Department or any committees or boards of producers under the order created for the purpose may be vested with authority to perform any or all functions in connection with such review proceedings, including ruling thereon. Committees or boards created for this purpose shall be deemed agencies of the Secretary within the meaning of subsection 8c(7) (C) and section 10 of this title. The ruling upon such review shall be final if in accordance with law. The producer may obtain a judicial review of such ruling in accordance with the provisions of section 8c(15) (B) of this title; and

“(ix) the provisions of section 8a(5) shall not apply to any producer in the application of this subparagraph or regulations issued pursuant thereto.”

STAFF EXPLANATION OF S. 399 (SUBCOMMITTEE No. 3)

SHORT EXPLANATION

This bill, which is identical to S. 1915, as passed by the Senate on October 10, 1963, makes it clear that the Secretary of Agriculture may provide for allotments under milk marketing orders, so that instead of receiving a uniform blend price producers will receive a higher return on milk covered by allotments and a lower return for milk in excess of allotments. The bill does not affect the minimum prices paid by handlers, but deals only with apportionment of the proceeds among producers.

ANALYSIS OF THE BILL

The bill adds a new subparagraph (H) to section 8c(5) of the Agricultural Adjustment Act.

New subparagraph (H) is to be effective notwithstanding any other provision of section 8c(5). This would make it clear that sections 8c(5) (G) (precluding any prohibition on the marketing of milk produced in any area), 8c(18) (relating to pricing standards based on supply and demand factors), and any other provision of section 8c should in no way be construed to interfere with the objectives of new subparagraph (H).

Item (i) of subparagraph (H) provides for apportioning sales in the highest use classification or classifications, plus necessary reserves, among producers on the basis of their deliveries during a representative period, with due allowance for abnormal conditions, hardship cases, and producers who operated during only part of the representative period. Producers who delivered milk, but not under the order, at the time the allotment provisions become effective (and their successors in interest) would receive allotments on the same basis as those who were at that time delivering under the order. The allotment provisions would not be a barrier to the movement of milk from any part of the country into the order market; and any milk producer, producing milk anywhere on the date an allotment provision becomes effective under an order, would not be precluded from marketing his milk under that order on the same basis as producers marketing their milk under that order on that date.

Such a producer, however, would continue to be subject to any provision which might be included in an order under existing section 8c(5) (D). Under that section a producer who was not regularly delivering milk to the regulated market prior to the effective date of the order may be required to take the lowest class price for the first 2 to 3 months after he begins delivering to the regulated market.

Equitable provision is made for new producers entering production after the effective date of the allotment provision. Allotments may be transferred only if the Secretary deems such action in the best interests of the public, existing producers, and prospective new producers. Allotments may be adjusted from time to time.

Item (ii) provides that producers would receive the lowest class price for milk delivered in excess of their allotments. The remainder of the amounts required to be paid by handlers into the pool would be distributed to producers pro rata on the basis of their allotments. Thus for his allotment milk the producer would receive his share of the amount required to be paid for milk needed for fluid use, plus adequate reserves, and for his excess milk would receive the lowest class price.

Item (iii) makes it clear that the new provisions may be applied to individual handler pools.

Item (iv) is designed to prevent a producer from delivering his allotment milk to the regulated market to take full advantage of the higher price provided therefor, and then dumping his excess milk on markets normally supplied by other producers. The order may provide in such case for reducing his allotment, or his payments from the pool.

Item (v) authorizes inclusion in the order of provisions requiring producers and purchasers from them to keep books and records and make reports.

Item (vi) makes it clear that the new provisions may be applied to producer-handlers, who both produce and handle milk.

Item (vii) provides that the order provisions under new subparagraph (H) must be separately approved by producers to become effective, and may be separately terminated. Thus they may be disapproved or terminated without affecting the remainder of the order.

Item (viii) provides a method for administrative review of allotments and for judicial review if the administrative ruling is not in accordance with law.

Item (ix) makes the civil forfeiture provisions of section 8a(5) inapplicable to allotments under new subparagraph (H). No producer is prohibited by subparagraph (H) from marketing any quantity he desires to market. Subparagraph (H) merely requires him to take the surplus value for surplus milk produced by him.

JUNE 14, 1965.

[S. 598, 89th Cong., 1st sess.]

A BILL To amend the Agricultural Adjustment Act of 1938, as amended, to provide for continuation of the voluntary wheat certificate program, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding any other provision of law, the Secretary shall not proclaim a national marketing quota for the 1966 crop and subsequent crops of wheat, and farm marketing quotas shall not be in effect for such crops of wheat.

SEC. 2. Effective beginning with the 1966 crop, the Agricultural Adjustment Act of 1938, as amended, is amended as follows:

(1) Section 333 is amended to read as follows:

“SEC. 333. The Secretary shall proclaim a national acreage allotment for each crop of wheat. The national acreage allotment for any crop of wheat shall be the number of acres which the Secretary determines on the basis of expected yields and expected underplantings of farm acreage allotments will, together with the expected production on the increases in acreage allotments for farms based upon small-farm base acreages pursuant to section 335, make available a supply of wheat equal to the national production goal for wheat for the marketing year for such crop. The amount of the national production goal for wheat for any marketing year shall be an amount of wheat which the Secretary estimates (i) will be utilized during such marketing year in the United States for food products, (ii) will be utilized during such marketing year in the United States for seed, (iii) will be exported either in the form of wheat or products thereof, and (iv) as the average amount which was utilized as livestock (including poultry) feed in the marketing years beginning in 1959 and 1960; less (A) an amount of wheat equal to the estimated imports of wheat into the United States during such marketing year, and (B) if the stocks of wheat owned by Commodity Credit Corporation are determined by the Secretary to be excessive, an amount of wheat determined by the Secretary to be a desirable reduction in such marketing year in such stocks: *Provided*, That if the Secretary determines that the total stocks of wheat in the Nation are insufficient to assure an adequate carryover for the next succeeding marketing year, the national production goal otherwise determined shall be increased by the amount

the Secretary determines to be necessary to assure an adequate carryover: *And provided further*, That the national production goal for wheat for any marketing year shall be not less than one billion bushels."

(2) Section 334(a) is amended by changing "for 1965" in the last proviso of the first sentence to "for 1965 and any subsequent year".

(3) Section 334(b) is amended by changing "for 1965" in the last proviso to "for 1965 and any subsequent year".

(4) Section 334(c) is amended by changing that part of the third sentence which precedes the proviso to read as follows: "For the purpose of establishing farm acreage allotments—(i) the past acreage of wheat on any farm for 1958 or for 1965 or any subsequent year shall be the base acreage determined for the farm under the regulations issued by the Secretary for determining farm wheat acreage allotments; (ii) if subsequent to the determination of such base acreage the wheat acreage allotment for the farm is increased through administrative review, or court proceedings, the farm base acreage shall be increased in the same proportion; and (iii) the past acreage of wheat for the years 1959 through 1964 shall be the wheat acreage on the farm which is not in excess of the farm wheat acreage allotment, plus, in the case of any farm which is in compliance with its farm wheat acreage allotment, the acreage diverted under such wheat allotment programs."

(5) Section 334(g) is amended by changing "in 1958 or thereafter except 1965" to read "in the years 1958 through 1964".

(6) Section 339(b) is amended by changing "1964 and 1965 crops" to "1964 crop and subsequent crops".

(7) Section 379b is amended to read as follows:

"SEC. 379b. A wheat marketing allocation program as provided in this subtitle shall be in effect for the marketing years for the 1964 crop and subsequent crops. Whenever a wheat marketing allocation program is in effect for any marketing year the Secretary shall determine (1) the wheat marketing allocation for such year which shall be the amount of wheat he estimates will be used during such year for food products for consumption in the United States and that portion of the amount of wheat which he estimates will be exported in the form of wheat or products thereof during the marketing year on which the Secretary determines that marketing certificates shall be issued to producers in order to achieve, insofar as practicable, the price and income objectives of this subtitle, and (2) the national allocation percentage for such year which shall be the percentage which the national marketing allocation is of the national production goal less than expected production on the acreage allotments for farms which will not be in compliance with the requirements of the program. Each farm shall receive a wheat marketing allocation for such marketing year equal to the number of bushels obtained by multiplying the number of acres in the farm acreage allotment for wheat by the normal yield of wheat for the farm as determined by the Secretary, and multiplying the resulting number of bushels by the national allocation percentage."

SEC. 3. The Agricultural Act of 1964 is amended as follows:

(1) Amendment (7) of section 202 is amended by striking out "effective only with respect to the crops planted for harvest in 1964 and 1965" and substituting "effective beginning with the crop planted for harvest in 1964".

(2) Amendment (13) of section 202 is amended by striking out "effective only with respect to the crop planted for harvest in the calendar year 1965" and substituting "effective beginning with the crop planted for harvest in 1965".

(3) Section 204 is amended by striking out "effective only with respect to the marketing years beginning in the calendar years 1964 and 1965" and substituting "effective beginning with the marketing year beginning in the calendar year 1964".

SEC. 4. Effective beginning with the 1966 crop, section 107 of the Agricultural Act of 1949, as amended, is amended to read as follows:

"SEC. 107. Notwithstanding the provisions of section 101 of this Act, beginning with the 1966 crop—

"(1) Price support for wheat accompanied by domestic certificates shall be at a level equal to the parity price therefor.

"(2) Price support for wheat accompanied by export certificates shall be at such level, not in excess of the parity price therefor, as the Secretary determines appropriate, taking into consideration the factors specified in section 401(b).

"(3) Price support for wheat not accompanied by marketing certificates shall be at such level, not in excess of the parity price therefor, as the Secretary de-

termines appropriate taking into consideration competitive world prices of wheat, the feeding value of wheat in relation to feed grains, and the level at which price support is made available for feed grains.

“(4) Price support shall be made available only to cooperators.

“(5) A ‘cooperator’ with respect to any crop of wheat produced on a farm shall be a producer who (i) does not knowingly exceed (A) the farm acreage allotment for wheat on the farm or (B) except as the Secretary may by regulation prescribe, the farm acreage allotment for wheat on any other farm on which the producer shares in the production of wheat, and (ii) complies with the land use requirements of section 339 of the Agricultural Adjustment Act of 1938, as amended, to the extent prescribed by the Secretary. No producer shall be deemed to have exceeded a farm acreage allotment for wheat if the production on the acreage in excess of the farm acreage allotment is stored pursuant to the provisions of section 379c(b), but the producer shall not be eligible to receive price support on the wheat so stored.”

STAFF EXPLANATION OF S. 598 (SUBCOMMITTEE No. 3)

SHORT EXPLANATION

This bill provides for a permanent voluntary wheat marketing certificate program under which domestic certificate wheat would be supported at full parity, and export certificate and noncertificate wheat would be supported at levels determined by the Secretary from 0 to 100 percent of parity. Acreage history penalties for over or under planted allotments would be repealed, and monetary penalties for producing crops on acreage required to be diverted from wheat would also be repealed. Authority for a wheat acreage diversion payment program would be made permanent.

The permanent program provided for by S. 598 is identical to that authorized by the Agricultural Act of 1964 for 1965, except that—

(1) The support level for domestic certificate wheat would be full parity;

(2) The maximum support level for other wheat would be full parity; and

(3) The minimum national acreage allotment would be such as to achieve a production objective of 1 billion bushels (instead of 49.5 million acres).

SECTION-BY-SECTION EXPLANATION

Section 1 terminates marketing quotas beginning with the 1966 crop.

Section 2(1) amends the existing provision for proclamation of a national acreage allotment to eliminate references to marketing quotas. Thus it provides for such proclamation for each crop (instead of whenever quotas are proclaimed); eliminates an allowance to compensate for overproduction on small farms exempt from quotas; and provides that the allotment shall be such as to make available a supply equal to the production objective (rather than to the marketing quota). The production objective would be computed in essentially the manner now required for computation of the marketing quota.

Sections 2(2), 2(3), 2(4), and 2(5) repeal provisions for reducing State, county, and farm acreage allotments for overplanting or underplanting allotments in the same manner that the Agricultural Act of 1964 suspended such provisions for 1964.

Section 2(6) makes the authority for a wheat diversion payment program permanent. The existing authority extended only to the 1964 and 1965 crops.

Section 2(7) provides for a wheat marketing allocation program in the absence of quotas in 1966 and subsequent years in the same manner that section 202(10) of the Agricultural Act of 1964 made such provision for the 1964 and 1965 crops.

Section 3(1) makes permanent the provision of the 1964 act eliminating monetary penalties for harvesting crops from acreage required to be diverted from wheat.

Section 3(2) makes permanent the provision of the 1964 act which permitted allotment violators to store their excess production in order to maintain eligibility for marketing certificates.

Section 3(3) makes permanent the provision of the 1964 act which provided that the minimum CCC resale price would be based on the noncertificate support

price rather than on the certificate support price. Under this provision the minimum CCC sales price for wheat would be 105 percent of the noncertificate support price, plus reasonable carrying charges.

Section 4 amends the wheat price support law to—

(1) provide that the support level for wheat accompanied by domestic marketing certificates shall be full parity (instead of 65 to 90 percent of parity) ;

(2) provide that the support levels for export certificate wheat and non-certificate wheat shall be fixed between 0 and 100 percent of parity (instead of 0 and 90 percent of parity) ;

(3) strike out the prohibition against price support outside the commercial area ; and

(4) strike out provisions having no meaning in the absence of marketing quotas.

JUNE 10, 1965.

[S. 891, 89th Cong., 1st sess.]

A BILL To adjust wheat and feed grain production, to establish a cropland retirement program, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Wheat and Feed Grain Act of 1965".

DECLARATION OF POLICY

SEC. 2. The Congress finds that the production of excessive supplies of wheat and feed grains depresses prices and the income of farm families, constitutes improper land use, and is wasteful of our natural resources. It is hereby declared to be the policy of the Congress and the purpose of this Wheat and Feed Grain Act of 1965 to bring the supplies of wheat and feed grains into line with current demand in order to (a) increase per family farm income ; (b) reduce the surplus of wheat and feed grains ; and (c) decrease the public costs of maintaining farm programs. To effectuate the policy of Congress and the purpose of this Act, programs are herein established to assist farmers in (1) diverting a portion of their cropland from the production of excessive supplies of wheat, feed grains, and other commodities ; (2) carrying out a voluntary program of soil, water, forest, and wildlife conservation ; and (3) obtaining commodity prices in the marketplace higher than levels at which commodity loans are made available by the Commodity Credit Corporation.

TITLE I—LAND RETIREMENT AND SOIL CONSERVATION

ANNUAL DETERMINATION—VOLUNTARY LAND RETIREMENT—RENTAL PAYMENTS IN CASH

SEC. 101. Beginning with the 1966 crop year the Secretary of Agriculture is authorized and directed to establish and carry out a cropland retirement program. In formulating and administering such program—

(a) The Secretary shall each year make and announce an annual determination of—

(1) the estimated total cropland available for the production of crops in the United States in that year :

(2) the total acreage of farm cropland necessary to be retired and devoted to soil-conserving uses in order to bring the total estimated annual production plus the anticipated release from the Commodity Credit Corporation stocks into balance with the estimated annual disappearance of soil-depleting commodities ; and

(3) the acreage that can be retired effectively and economically in the respective year.

(b) The Secretary is authorized to enter into contracts covering periods of three or more years with producers determined by him to have control for the contract period of the farms covered by the contracts, if such producers agree to retire and devote to soil-conserving uses any or all farm cropland. The Secretary shall determine and announce the period within which such contracts will be entered into. This period shall be of sufficient duration to provide an opportunity for maximum producer participation. The Secretary shall encourage the

retirement of whole farms and shall provide full opportunity for producers of all commodities to participate voluntarily in the cropland retirement program: *Provided*, That the Secretary shall place a maximum limitation on the percentage of total cropland which may be retired and devoted to soil-conserving uses in any State or county or community area if he finds that such action is necessary to prevent the cropland retirement program from having an unduly disruptive effect on the economies of any such areas: *And provided further*, That any cropland retired and devoted to soil-conserving uses under the cropland retirement program established pursuant to this title shall be deemed in subsequent years to have been planted cropland for the purpose of establishing cropland history.

(c) The Secretary shall make an annual rental payment to producers who (1) retire and devote cropland to soil-conserving uses with proper management pursuant to subsection (b) of this section, and (2) otherwise comply with the cropland retirement program as set forth in this title.

The Secretary shall determine the rate of rental payments that will provide producers with a fair and reasonable annual return on the land retired and devoted to soil-conserving uses after taking all relevant factors into consideration, including (1) the incentive necessary to achieve voluntary participation in the program, (2) the loss of crop production on the retired acres, (3) any savings in cost which result from not planting crops, (4) the estimated profit margin of crop production on the designated acres, (5) continuing farm overhead expenses, (6) the cost of establishing a conservation practice on the retired acres, (7) the value of the land for production of commodities customarily grown on such kind of land in the county or area, and (8) drought, flood, or other abnormal condition.

The rate on lands determined in accordance with the preceding paragraph shall be adjusted on a State, county, and individual farm basis in such a manner as the Secretary determines will facilitate the practical administration of the program. The lands to be covered by contracts shall be determined by a competitive bid procedure whereby a producer wishing to obtain a contract shall specify the percentage of the rental rate applicable to his farm which he is willing to accept.

(d) The Secretary shall compensate producers for participating in the cropland retirement program through annual cash payments.

In order to assist producers in the establishment of soil-conserving uses on cropland retired under the cropland retirement program, the Secretary shall coordinate such program with the agricultural conservation program established pursuant to the Soil Conservation and Domestic Allotment Act, as amended (49 Stat. 163; 16 U.S.C 590 et seq.).

TERMS AND CONDITIONS OF CONTRACTS WITH PRODUCERS

SEC. 102. (a) Under any cropland retirement contract the producer shall agree—

(1) to establish and maintain with proper management for the contract period protective vegetative cover (including but not limited to grass and trees), water storage facilities or other soil-, water-, wildlife-, or forest-conserving uses (excluding orchards and vineyards) on any acreage of land which is specifically designated at the time the contract is entered into and which has been regularly used in the production of crops (including crops such as tame hay, alfalfa, and clovers), which do not require annual tillage;

(2) to allow to remain fallow, idle, and in the production of crops (including tame hay, alfalfa, and clovers) which do not require annual tillage throughout the contract period, an acreage of the remaining cropland on the farm which is not less than the acreage normally allowed to remain fallow, idle, and in the production of crops which do not require annual tillage on such remaining acreage;

(3) not to harvest any crop from the acreage established in the protective vegetative cover, excepting timber (in accordance with sound forestry management) and wildlife or other natural products of such acreage which do not increase supplies of feed for domestic animals;

(4) not to graze any acreage established in protective vegetative cover;

(5) not to adopt any practice, or divert lands on the farm from conservation, woods, grazing, or other noncropland use, to any use specified by the

Secretary in the contract as a practice or use which would tend to defeat the purposes of the contract ;

(6) to abide by regulations prescribed by the Secretary with respect to the planting of crops during the contract period for later harvest or use ; and

(7) to such additional provisions as the Secretary determines are desirable and includes in the contract to effectuate the purposes of this title and to facilitate the practical administration of the cropland retirement program, including provisions relating to control of insects, rodents, and noxious and other objectionable weeds.

(b) In the event that the Secretary determines that there has been a violation of the contract (including the prohibition of grazing on retired acreage) at any stage during the time such producer has control of the farm and that such violation is of such a substantial nature as to warrant termination of the contract, the producer shall forfeit all rights to payments or grants under the contract, and shall refund to the United States all payments and grants received by him thereunder. In the event that the Secretary determines that there has been a violation of the contract but that such violation is of such a nature as not to warrant termination of the contract, the producer shall accept such payment adjustments, and make such refunds to the United States of payments received by him, under the contract, as the Secretary may determine to be appropriate.

SEC. 103. The Soil Bank Act, as amended (70 Stat. 188 ; 7 U.S.C. 1801 et seq.), is amended as follows :

Administrative and judicial remedy

(1) The first sentence of section 107(d) of such Act (7 U.S.C. 1831(d)) is amended by adding after the words "paragraph (6) of subsection (a)" the phrase "or under section 102(b) of the Wheat and Feed Grain Act of 1965".

Effect on other programs

(2) Section 112 of such Act (7 U.S.C. 1836) is amended by adding after the words "under this subtitle" each time it appears therein the phrase "or under title I of the Wheat and Feed Grain Act of 1965".

Geographic applicability

(3) Section 113 of such Act (7 U.S.C. 1837) is amended by adding after the words "subtitle B" the phrase "and title I of the Wheat and Feed Grain Act of 1965".

Reapportionment prohibited

(4) Section 115 of such Act (7 U.S.C. 1803) is amended by adding after the words "conservation reserve programs" the phrase "or the cropland retirement program established pursuant to title I of the Wheat and Feed Grain Act of 1965".

Utilization of local and State committees

(5) Section 117 of such Act (7 U.S.C. 1805) is amended by adding after the words "this title" the phrase "or title I of the Wheat and Feed Grain Act of 1965".

Utilization of other agencies

(6) Section 118 of such Act (7 U.S.C. 1806) is amended by adding after the words "this title" the phrase "or title I of the Wheat and Feed Grain Act of 1965".

Utilization of Land Use Capability Data

(7) Section 119 of such Act (7 U.S.C. 1807) is amended by adding after the words "this title" the phrase "or title I of the Wheat and Feed Grain Act of 1965".

Finality of Determinations

(8) Section 121 of such Act (7 U.S.C. 1809) is amended by adding after the words "this title" the phrase "or under title I of the Wheat and Feed Grain Act of 1965".

Protection of Tenants and Sharecroppers

(9) Section 122 of such Act (7 U.S.C. 1810) is amended by adding after the words "this title" the phrase "or under title I of the Wheat and Feed Grain Act of 1965".

Penalty for Grazing or Harvesting

(10) Section 123 of such Act (7 U.S.C. 1811) is amended by adding after the words "section 103 or 107" the phrase "or under title I of the Wheat and Feed Grain Act of 1965".

Pooling or Cropland Retirement Land

(11) Section 126 of such Act (7 U.S.C. 1814) is amended by adding after the words "conservation reserve program" the phrase "or in the cropland retirement program pursuant to title I of the Wheat and Feed Grain Act of 1965".

Incorrect Information Furnished by the Government—Marriage of Producers

(12) Section 128 of such Act (7 U.S.C. 1816) is amended by adding after the words "conservation reserve program" the phrase "or the cropland retirement program established pursuant to title I of the Wheat and Feed Grain Act of 1965".

AUTHORIZED PERIOD OF CONTRACT AND EXPENDITURE—APPROPRIATIONS

SEC. 104. (a) The Secretary is authorized to formulate and announce programs under this title and to enter into contracts thereunder with producers during the three-year period 1966–1968 to be carried out during the period ending not later than December 31, 1973, except that contracts for establishment of tree cover may continue until December 31, 1978.

(b) The period covered by any contract shall not be less than three years and shall not exceed five years, except that contracts for the establishment of tree cover may extend for ten years.

(c) There are hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this title, including amounts as may be required to reimburse the Commodity Credit Corporation for its actual costs.

TERMINATION AND MODIFICATION OF CONTRACTS

SEC. 105. The Secretary may terminate any contract with a producer by mutual agreement with the producer if the Secretary determines that such termination would be in the public interest. The Secretary may agree to such modification of contracts previously entered into as he may determine to be desirable to carry out the purposes of this title and to facilitate the practical administration of the cropland retirement program.

REGULATIONS

SEC. 106. The Secretary shall prescribe such regulations as he determines necessary to carry out the provisions of this title.

TITLE II—REPEAL OF AUTHORITY FOR ACREAGE ALLOTMENTS, MARKETING QUOTAS AND MARKETING CERTIFICATES ON WHEAT, AND ACREAGE ALLOTMENTS ON CORN—PRICE SUPPORT ON WHEAT, CORN, OATS, RYE, BARLEY, AND GRAIN SORGHUM

SEC. 201. Notwithstanding any other provision of law, effective with the 1966 crops of wheat, corn, oats, rye, barley, and grain sorghum, sections 321 through 339 of parts II and III of subtitle B and section 379(a) through 379(j) of subtitle D of title III of the Agricultural Adjustment Act of 1938, as amended (52 Stat. 31; 7 U.S.C. 1281 et seq.), are repealed. Parts IV, V, and VI of subtitle B are redesignated as parts II, III, and IV respectively, and subtitle F is redesignated subtitle D.

SEC. 202. Effective with the 1966 crop of wheat, the Act of May 26, 1941, as amended (Public Law 74, Seventy-seventh Congress, 55 Stat. 203), is repealed.

SEC. 203. Effective with the 1966 crops of wheat, corn, oats, rye, barley, and grain sorghum, sections 327 and 328 of the Food and Agriculture Act of 1962 (Public Law 87–703, Eighty-seventh Congress) are repealed.

SEC. 204. Effective with the 1966 crops of corn, oats, rye, barley, and grain sorghum, section 105 of the Agricultural Act of 1949, as amended (7 U.S.C. 1441 note), is amended to read as follows:

"SEC. 105. (a) Notwithstanding the provisions of section 101 of this Act, beginning with the 1966 crop, price support shall be made available to producers for each crop of corn at 90 per centum of the average price received by farmers, excluding payments in kind made by the Secretary, during the three complete marketing years immediately preceding the calendar year in which the marketing year for such crop begins, adjusted to offset the effect on such price of any abnormal quantity of low-grade corn marketed during any of such years: *Provided*, That the level of price support for any crop shall not be less than 50 per centum of the parity price therefor.

"(b) Beginning with the 1966 crop, price support shall be made available to producers for each crop of oats, rye, barley, and grain sorghum at a level which relates to the level at which price support is made available for corn as the feed value of such commodity relates to the feed value of corn."

SEC. 205. Effective with the 1966 crop of wheat, section 107 of the Agricultural Act of 1949, as amended (7 U.S.C. 1445(a)), is amended to read as follows:

"SEC. 107. Notwithstanding the provisions of section 101 of this Act, beginning with the 1966 crop, price support shall be made available to producers for each crop of wheat at the United States farm price equivalent, as determined by the Secretary, of the average world market price during the three complete marketing years immediately preceding the calendar year in which the marketing year for such crop begins, with premiums and discounts as indicated by the market to reflect milling and baking quality: *Provided*, That the level of price support for any crop of wheat shall not be less than 50 per centum of the parity price therefor."

TITLE III—GENERAL PROVISIONS

FEDERAL IRRIGATION, DRAINAGE, AND FLOOD CONTROL PROJECTS

SEC. 301. Section 211 of the Agricultural Act of 1956, as amended (7 U.S.C. 1860), is amended (1) by striking "three years" each time it appears therein and inserting in lieu thereof "thirteen years", and (2) by adding after the words "soil bank provisions of the Act" in subsection (b) the phrase "and under title I of the Wheat and Feed Grain Act of 1965".

RESTRICTIONS ON SALES BY THE COMMODITY CREDIT CORPORATION

SEC. 302. Section 407 of the Agricultural Act of 1949, as amended (7 U.S.C. 1427), is amended—

(a) by changing the period at the end of the fourth sentence to a colon and adding the following: "*Provided*, That beginning July 1, 1965, the Commodity Credit Corporation shall not make any sales (except sales offset by equivalent purchases) of wheat, corn, oats, rye, barley, grain sorghum, soybeans, or flaxseed at less than 125 per centum of the current support price for any such commodity, plus reasonable carrying charges.", and

(b) by deleting the seventh sentence.

STAFF EXPLANATION OF S. 891 (SUBCOMMITTEE No. 3)

This bill provides for a "cropland retirement program." The Secretary of Agriculture would enter into contracts with producers for the diversion of all kinds of cropland to soil conserving uses, with the objective of achieving eventual balance between (i) annual production plus CCC sales, and (ii) disappearance of soil-depleting commodities. Existing laws relating to allotments, quotas, and marketing certificates for wheat and allotments for corn would be repealed. Price support for corn would be at 90 percent of the average price received by farmers (excluding payments in kind) during the 3 marketing years preceding the calendar year in which the marketing year for which the support level is being determined begins, but not less than 50 percent of parity. Price support for oats, rye, barley, and grain sorghum would be related to the corn support level on a feed value basis. Price support for wheat would be at the U.S. farm price equivalent of the average world market price during the 3 marketing years preceding the calendar year in which the marketing year for

which the support level is being determined begins, but not less than 50 percent of parity. The minimum CCC resale price for wheat, corn, oats, rye, barley, grain sorghum, soybeans, and flaxseed would be raised to 125 percent of the current support price, plus reasonable carrying charges. This increased restriction would not be subject to the usual exemptions specified in section 407 of the Agricultural Act of 1949, but would permit any sale offset by an equivalent purchase. The authority of CCC to sell at less than the statutory minimum in order to rotate stocks would be repealed for all commodities.

The bill would also revive and extend until May 28, 1969, section 211 of the Agricultural Act of 1956, which prohibits crop loans or Federal benefits for surplus commodities grown on newly irrigated or drained lands in Federal irrigation or drainage projects, unless such lands were used for the production of such commodities prior to May 28, 1956.

The cropland retirement program would be generally similar to the conservation reserve program. Contracts would run for 3 to 5 years (up to 10 years in the case of tree cover) and could be entered into through December 31, 1968. Contracts would be awarded on a bid basis, the bids being expressed as percentages of fair rental values fixed by the Secretary. The retirement of whole farms would be encouraged; but the Secretary would limit the percentage of cropland retired in any State or area if necessary to prevent adverse local economic effects.

JUNE 14, 1965.

[S. 939, 89th Cong., 1st sess.]

A BILL

To provide for a voluntary wheat domestic parity program

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

REPEAL OF PROVISIONS RELATING TO WHEAT MARKETING QUOTAS—EXTENSION OF PROVISION FOR MINIMUM NATIONAL ACREAGE ALLOTMENT OF FORTY-NINE MILLION FIVE HUNDRED THOUSAND ACRES

SECTION 1. (a) Sections 332 and 333 of the Agricultural Adjustment Act of 1938, as amended by sections 311 and 312 of Public Law 87-703, are amended to read as follows:

“PRODUCTION OBJECTIVE

“SEC. 332. (a) The production objective for wheat for any marketing year shall be an amount of wheat which the Secretary estimates (i) will be utilized during such marketing year for human consumption in the United States as food, food products, and beverages, composed wholly or partly of wheat, (ii) will be utilized during such marketing year in the United States for seed, (iii) will be exported either in the form of wheat or products thereof, and (iv) as the average amount which was utilized as livestock (including poultry) feed in the marketing years beginning in 1959 and 1960; less (A) an amount of wheat equal to the estimated imports of wheat into the United States during such marketing year and, (B) if the stocks of wheat owned by the Commodity Credit Corporation are determined by the Secretary to be excessive, an amount of wheat determined by the Secretary to be a desirable reduction in such marketing year in such stocks to achieve the policy of the Act: *Provided*, That if the Secretary determines that the total stocks of wheat in the Nation are insufficient to assure an adequate carryover for the next succeeding marketing year, the production objective otherwise determined shall be increased by the amount the Secretary determines to be necessary to assure an adequate carryover: *And provided further*, That the production objective for wheat for any marketing year shall be not less than the larger of (i) one billion bushels, or (ii) such number of bushels as will require proclamation of a national acreage allotment of forty-nine million five hundred thousand acres.

“(b) If, after the proclamation of the national acreage allotment for any crop of wheat, the Secretary has reason to believe that, because of a national emergency or because of a material increase in the demand for wheat, the production objective should be increased, he shall cause an immediate investigation to be made to determine whether such action is necessary in order to meet such emergency or increase in the demand for wheat. If, on the basis of such investigation,

the Secretary finds that such action is necessary, he shall immediately proclaim such finding and the amount of any such increase found by him to be necessary and thereupon such production objective shall be so increased. In case any production objective is increased under this subsection, the Secretary shall provide for such increase by increasing acreage allotments established under this part by a uniform percentage.

"NATIONAL ACREAGE ALLOTMENT"

"SEC. 333. Not later than April 15 of each calendar year the Secretary shall ascertain and proclaim the national acreage allotment for the crop of wheat produced in the next succeeding calendar year. The amount of the national acreage allotment for any crop of wheat shall be the number of acres which the Secretary determines on the basis of expected yields and expected underplantings of farm acreage allotments will, together with the expected production on the increases in acreage allotments for farms based upon small-farm base acreages pursuant to section 335, make available a supply of wheat equal to the production objective for wheat for such marketing year."

(b) Public Law 74, Seventy-seventh Congress, is repealed, and the Agricultural Adjustment Act of 1938, as amended, is amended by striking out the following provisions relating to wheat marketing quotas: (1) the sentence in section 334(i) relating to paragraph (6) of Public Law 74, Seventy-seventh Congress; (2) the words "and marketing quotas for the marketing year therefor" in the second sentence of section 334a; (3) the first and next to last sentences of section 335; (4) sections 336 and 338; (5) "wheat," in section 372(a); and (6) the two sentences of section 379c (b) immediately preceding the language added to that section by section 202(13) of the Agricultural Act of 1964.

(c) The following headings contained in the Agricultural Adjustment Act of 1938, as amended, are amended as follows:

(1) The heading of subtitle B of title III is amended to read "SUBTITLE B—MARKETING QUOTAS AND ACREAGE ALLOTMENTS".

(2) The heading of part III of subtitle B of title III is amended to read "PART III—ACREAGE ALLOTMENTS—WHEAT".

(3) The heading of section 335 is amended to read "MINIMUM ALLOTMENT".

REPEAL OF ACREAGE PENALTIES FOR OVERPLANTING OR UNDERPLANTING ALLOTMENTS

SEC. 2. (a) The second proviso of section 334(a) of the Agricultural Adjustment Act of 1938, as amended, is amended by inserting "and any subsequent year" after "1965".

(b) The second proviso of section 334(b) of such Act is amended by inserting "and any subsequent year" after "1965".

(c) So much of the third sentence of section 334(c) of such Act as precedes ": *Provided*" is amended to read as follows: "For the purpose of establishing farm acreage allotments—(i) the past acreage of wheat on any farm for 1958 or any year subsequent to 1964 shall be the base acreage determined for the farm under the regulations issued by the Secretary for determining farm wheat acreage allotments for such year; (ii) if subsequent to the determination of such base acreage the wheat acreage allotment for the farm for 1958 or any year subsequent to 1964 is increased through administrative, review, or court proceedings, the farm base acreage for such year shall be increased in the same proportion; and (iii) the past acreage of wheat for 1959 and any subsequent year prior to 1965 shall be the wheat acreage on the farm which is not in excess of the farm wheat acreage allotment, plus, in the case of any farm which is in compliance with its farm wheat acreage allotment, the acreage diverted under such wheat allotment program".

(d) The first sentence of section 334(g) of such Act is amended by striking out "1958 or thereafter except 1965" and inserting "the years 1958 through 1964".

MILLION-ACRE SPECIAL ACREAGE RESERVE

SEC. 3. The first sentence of the language added at the end of section 334(a) of the Agricultural Adjustment Act of 1938, as amended, by section 202(1) of the Agricultural Act of 1964 (providing for a special acreage reserve not in excess of one million acres) is amended by striking out "not in excess of one million acres as determined by the Secretary to be desirable for the purposes hereof" and inserting "one million acres".

FULL PARITY FOR WHEAT FOR DOMESTIC FOOD CONSUMPTION

SEC. 4. (a) Section 107 of the Agricultural Act of 1949, as amended (7 U.S.C. 1445a), is amended to read as follows:

“SEC. 107. Notwithstanding the provisions of section 101 of this Act, beginning with the 1966 crop—

“(1) price support for wheat accompanied by marketing certificates shall be at a level equal to the full parity price therefor,

“(2) price support for wheat not accompanied by marketing certificates shall be at such level, not in excess of 90 per centum of the parity price therefor, as the Secretary determines appropriate, taking into consideration competitive world prices of wheat, the feeding value of wheat in relation to feed grains, and the level at which price support is made available for feed grains: *Provided*, That the level of price support for such wheat shall in no event be less than the higher of (i) the United States farm price equivalent, as determined by the Secretary, of the average world market price for wheat during the immediately preceding three marketing years, or (ii) 50 per centum of the parity price therefor,

“(3) price support shall be made available only to cooperators; and if a commercial wheat-producing area is established for such crop, price support shall be made available only in the commercial wheat-producing area, and

“(4) a ‘cooperator’ with respect to any crop of wheat produced on a farm shall be a producer who (i) does not knowingly exceed (A) the farm acreage allotment for wheat or any other commodity on the farm or (B) except as the Secretary may by regulation prescribe, the farm acreage allotment on any other farm for any commodity in which he has an interest as a producer, and (ii) complies with the land-use requirements of section 339 of the Agricultural Adjustment Act of 1938, as amended, to the extent prescribed by the Secretary. No producer shall be deemed to have exceeded a farm acreage allotment for wheat if the production on the acreage in excess of the farm acreage allotment is stored pursuant to the provisions of section 379c(b), but the producer shall not be eligible to receive price support on the wheat so stored.”

(b) Section 379b of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

“SEC. 379b. Beginning with the marketing year for the 1966 crop, a wheat marketing allocation program shall be in effect as provided in this subtitle. Whenever a wheat marketing allocation program is in effect for any marketing year the Secretary shall determine (1) the wheat marketing allocation for such year which shall be the amount of wheat which in determining the production objective for such marketing year he estimated would be used during such year for human consumption in the United States, as food, food products, and beverages, composed wholly or partly of wheat, and (2) the national allocation percentage for such year which shall be the percentage which the national marketing allocation is of the production objective, less the expected production on the acreage allotments for farms which will not be in compliance with the requirements of the program. Each farm shall receive a wheat marketing allocation for such marketing year equal to the number of bushels obtained by multiplying the number of acres in the farm acreage allotment for wheat by the normal yield of wheat for the farm as determined by the Secretary, and multiplying the resulting number of bushels by the national allocation percentage. If a non-commercial wheat producing area is established for any marketing year, farms in such area shall be given wheat marketing allocations which are determined by the Secretary to be fair and reasonable in relation to the wheat marketing allocation given producers in the commercial wheat producing area.”

(c) Section 379c(a) of the Agricultural Adjustment Act of 1938, as amended, is amended by striking out the last sentence thereof.

(d) The second sentence of section 379c(c) of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows: “The face value per bushel of marketing certificates shall be equal to the amount by which the level of price support for wheat accompanied by certificates exceeds the level of price support for wheat not accompanied by certificates (noncertificate wheat).”

CERTIFICATES FOR PRIOR CROP WHEAT IF CURRENT CROP UNDERPLANTED—STORAGE OF
EXCESS WHEAT

SEC. 5. (a) The second sentence of section 379c(a) of the Agricultural Adjustment Act of 1938, as amended, is amended by striking out beginning with “(ii)” through the end of the sentence and inserting the following: “(ii) the amount of wheat stored under section 379c(b) which is released from storage during the marketing year on account of underplanting or underproduction, plus (iii) the amount of any other wheat remaining on hand from prior crops produced on the farm for which the Secretary determines certificates have not previously been issued.”

(b) Section 202(13) of the Agricultural Act of 1964 (providing for the 1965 crop only for storage of excess wheat) is amended by striking out (1) “, effective only with respect to the crop planted for harvest in the calendar year 1965.”; (2) “or stored in order to avoid or postpone a marketing quota penalty”; and (3) “or in order to avoid a marketing quota penalty”.

AUTHORITY TO SUSPEND REQUIREMENT FOR PURCHASE OF CERTIFICATES BY PROCES-
SORS—CERTIFICATES NOT REQUIRED ON EXPORTS

SEC. 6. (a) Section 379d(b) of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

“(b) All persons engaged in the processing of wheat into food products shall, prior to marketing any such food product or removing such food product for sale or consumption, acquire marketing certificates equivalent to the number of bushels of wheat contained in such product. Upon the exportation from the United States of any such food product, the Commodity Credit Corporation shall refund to the exporter the value of marketing certificates equivalent to the number of bushels of wheat contained in such product. Marketing certificates shall be valid to cover only sales or removals for sale or consumption made during the marketing year with respect to which they are issued, and after being once used to cover a sale or removal for sale or consumption shall be void and shall be disposed of in accordance with regulations prescribed by the Secretary. Notwithstanding the foregoing provisions hereof, the Secretary may require marketing certificates issued for any marketing year to be acquired to cover sales or removals made on or after the date during the calendar year in which wheat harvested in such calendar year begins to be marketed as determined by the Secretary even though such wheat is marketed prior to the beginning of the marketing year, and marketing certificates for such marketing year shall be valid to cover sales or removals made on or after the date so determined by the Secretary. The requirements of this subsection may be suspended for any marketing year or other period by the President in whole or to such extent as he deems appropriate, if he determines that such suspension will result in the more effective regulation of commerce and the better effectuation of the purposes of this Act. In the event of such full or partial suspension, the Commodity Credit Corporation shall buy all marketing certificates offered to it in accordance with the regulations prescribed under section 379e.”

(b) Section 379d(c) of such Act is amended by striking out “or export”.

REPEAL OF MONETARY PENALTIES FOR PRODUCTION ON DIVERTED ACRES

SEC. 7. Section 339(a)(1) of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

“(a)(1) The producers on any farm (except a new farm receiving an allotment from the reserve for new farms) on which any crop is produced on acreage required to be diverted from the production of wheat shall, except to the extent otherwise prescribed by the Secretary, be ineligible to receive price support on wheat or wheat marketing certificates unless the crop is designated by the Secretary as one which is not in surplus supply and will not be in surplus supply if it is permitted to be grown on the diverted acreage, or as one the production of which will not substantially impair the purpose of the requirements of this section. The acreage required to be diverted from the production of wheat on the farm shall be an acreage of cropland equal to the number of acres determined by multiplying the farm acreage allotment by the diversion factor determined by dividing the number of acres by which the national acreage allotment is reduced below fifty-five million acres by the number of acres in the national acreage allotment.”

DIVERSION PAYMENT PROGRAM REQUIRED FOR 1966 AND SUBSEQUENT CROPS

SEC. 8. Section 339(b) of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

“(b) The Secretary shall formulate and carry out a program with respect to the 1966 and subsequent crops of wheat under which, subject to such terms and conditions as he determines are desirable to effectuate the purposes of this section, payments shall be made in amounts equal to 50 per centum of the estimated basic county support rate for wheat not accompanied by marketing certificates on the normal production of the acreage diverted pursuant to subsection (a) of this section. The Secretary may permit producers on any farm to divert from the production of wheat at the same rate of payment an acreage, in addition to the acreage diverted pursuant to subsection (a), equal to 20 per centum of the farm acreage allotment for wheat: *Provided*, That the producers on any farm may, at their election, divert such acreage in addition to the acreage diverted pursuant to subsection (a), as will bring the total acreage diverted on the farm to fifteen acres. Such program shall require (1) that the diverted acreage shall be devoted to conservation uses approved by the Secretary; (2) that the total acreage of cropland on the farm devoted to soil-conserving uses, including summer fallow and idle land but excluding the acreage diverted as provided above, shall be not less than the total average acreage of cropland devoted to soil-conserving uses including summer fallow and idle land on the farm during a representative period, as determined by the Secretary, adjusted to the extent the Secretary determines appropriate for (i) abnormal weather conditions or other factors affecting production, (ii) established crop rotation practices on the farm, (iii) participation in other Federal farm programs, (iv) unusually high percentage of land on the farm devoted to conserving uses, and (v) other factors which the Secretary determines should be considered for the purpose of establishing a fair and equitable soil-conserving acreage for the farm; and (3) that the producer shall not knowingly exceed (i) any farm acreage allotment in effect for any commodity produced on the farm, and (ii) except as the Secretary may by regulations prescribe, with the farm acreage allotments on any other farm for any crop in which the producer has a share: *Provided*, That no producer shall be deemed to have exceeded a farm acreage allotment for wheat if the production on the acreage in excess of the farm acreage allotment is stored pursuant to the provisions of section 379c(b). The producers on a new farm shall not be eligible for payments hereunder. The Secretary shall provide for the sharing of payment among producers on the farm on a fair and equitable basis. Payments may be made in cash or in wheat.”

EFFECTIVE DATE

SEC. 9. This Act shall be effective beginning with the 1966 crop of wheat. Subject to adjustment as provided by law, if marketing quotas or acreage allotments have been proclaimed for the marketing year beginning in 1966 or for the 1966 crop, the production objective for such marketing year shall be in the same amount as the national marketing quota heretofore proclaimed, and the National, State, county, and farm acreage allotments for such crop shall be those heretofore proclaimed and apportioned, without further proclamation or apportionment.

STAFF EXPLANATION OF S. 939 (SUBCOMMITTEE No. 3)

SHORT EXPLANATION

This bill provides for a voluntary wheat domestic parity program. It would—

1. Repeal existing provisions for marketing quotas;
2. Make permanent the provision for a minimum national acreage allotment of 49,500,000 acres;
3. Provide full parity for wheat for domestic food consumption, and not less than the higher of (i) the farm price equivalent of the previous 3-year average world market price, or (ii) 50 percent of parity for all other wheat;
4. Repeal provisions for acreage penalties for overplanting or underplanting allotments;
5. Require the special acreage reserve for old wheat farms to equal 1 million acres;

6. Permit producers of excess wheat to store their excess and qualify for marketing certificates and price support ;

7. Permit certificates to be issued for wheat held over from a prior crop where the current crop is underplanted ;

8. Permit the President to suspend the requirement that processors acquire marketing certificates, in which case all certificates would be redeemed by Commodity Credit Corporation ;

9. Repeal the provision for monetary penalties for producing crops on acreage required to be diverted from wheat ; and

10. Extend the wheat diversion payment program permanently with a mandatory payment rate equal to 50 percent of the noncertificate support price multiplied by the normal production of the acreage diverted.

Under the bill acreage allotments would be proclaimed every year. The amount of the national acreage allotment would be the larger of 49,500,000 acres, or the acreage needed to meet the production objective, which could not be less than 1 billion bushels. It would be apportioned among States, counties, and farms as provided by existing law, except that no loss of history would result from the overplanting or underplanting of allotments. Marketing certificates would be utilized as under existing law, except that they would be restricted to the portion of the crop needed for domestic food consumption, and the support level for all certificate wheat would be full parity, instead of 65 to 90 percent of parity for domestic certificate wheat and 0 to 90 percent of parity for export certificate wheat. The remainder of the crop would be supported at the level now provided for noncertificate wheat, and certificates would not be required for export wheat. The President would determine, in accordance with the objectives of the act, whether processors would be required to obtain certificates for wheat processed for domestic consumption, or whether the wheat for domestic consumption should move at the noncertificate price, with the certificate issued to producers being redeemed by Commodity Credit Corporation. The bill would be applicable to the 1966 and subsequent crops.

SECTION-BY-SECTION EXPLANATION

Repeal of marketing quota authority—Extension of 49.5-million-acre minimum allotment

Section 1 repeals the existing provisions for wheat marketing quotas, and continues in effect the minimum national acreage allotment of 49.5 million acres.

Subsection (a) provides that, instead of proclaiming marketing quotas when the supply would otherwise be excessive, the Secretary shall determine a production objective each year and proclaim a national acreage allotment designed to achieve it. The formula for determining the production objective would be the same as the present formula for determining the amount of the marketing quota, and the national acreage allotment would be the same as under existing law, except that, in addition to the 1 billion bushel minimum provided by existing law, this subsection would continue the 49.5-million-acre minimum which existing law makes applicable to 1965 only. The national acreage allotment would be apportioned to States, counties, and farms as provided by existing law, except that section 2 of the bill would prevent any history loss by reason of underplanting or overplanting in the same manner that the Agricultural Act of 1964 prevented such loss in 1965, and section 3 of the bill would provide a fixed acreage of 1 million acres for the special acreage reserve for old wheat farms created by the 1964 act. Acreage allotments could be increased as under existing law, but the existing provision for termination is deleted.

Subsection (b) repeals Public Law 74, 77th Congress, which deals with wheat marketing penalties; and amends the Agricultural Adjustment Act of 1938 by striking out section 336 which deals with the marketing quota referendum, section 338 which deals with transfers of farm marketing quotas, and provisions in various other sections which have no meaning in the absence of marketing quotas. Paragraphs (8) and (9) of Public Law 74, which deal, respectively, with rice marketing penalties and support for the 1941 through 1946 crops are obsolete, and their repeal merely strikes out ineffective provisions. Rice marketing penalty rates are now established by section 356 of the Agricultural Adjustment Act of 1938.

Subsection (c) makes changes in headings in the Agricultural Adjustment Act of 1938 required by the deletion of quota provisions.

Acreage penalty repeal

Section 2 makes permanent those provisions of the Agricultural Act of 1964 which prevented any loss of State, county, or farm acreage history in 1965 as a result of overplanting or underplanting allotments.

Subsection (a) prevents such loss of history in the case of the State allotment. The proviso to be amended by subsection (a) was added by section 202(1) of the Agricultural Act of 1964.

Subsection (b) prevents such loss of history in the case of the county allotment. The proviso to be amended by subsection (b) was added by section 202(2) of the Agricultural Act of 1964.

Subsection (c) prevents such loss of history at the farm level in the same manner as was provided for 1965 by section 202(3) of the Agricultural Act of 1964.

Subsection (d) complements subsections (a) and (b) by making changes in section 334(g) of the Agricultural Adjustment Act of 1938 necessary to assure that States and counties do not lose history as a result of the overplanting of farm allotments.

Million-acre special acreage reserve

Section 3 provides that the special acreage reserve for old wheat farms created by section 202(1) of the Agricultural Act of 1964 shall be 1 million acres. At present the reserve may be set at any figure up to 1 million acres that the Secretary determines desirable.

Full parity for wheat for domestic food consumption

Section 4 provides price support at full parity for wheat for domestic food consumption, and puts a floor under the support level for other wheat equal to the higher of (i) the farm price equivalent of the previous 3-year average world market price, or (ii) 50 percent of parity.

Subsection (a) repeals the existing provisions for support of domestic certificate wheat at 65 to 90 percent of parity and export certificate wheat at 0 to 90 percent of parity; and provides instead for a single support level for all certificate wheat at full parity. Subsection (a) puts a floor under the support level for noncertificate wheat equal to the higher of (i) the farm price equivalent of the previous 3-year average world market price, or (ii) 50 percent of parity. Subsection (a) also repeals those provisions of the price-support law which are related to the marketing quota provisions repealed by section 1 of the bill. In addition subsection (a) preserves the eligibility for wheat price support of producers who exceed their allotments, but store their excess wheat as permitted under section 5(b) of the bill.

Subsection (b) limits the quantity of marketing certificates issued to producers to the quantity of wheat estimated to be needed for domestic food consumption (instead of including such portion of the estimated exports as may be fixed by the Secretary of Agriculture as is now provided). Section 202(10) of the Agricultural Act of 1964 provided for the 1964 and 1965 crops for an adjustment in the computation of the national allocation percentage which was designed to result in issuance to the farmers who complied with the program of certificates to cover the entire wheat marketing allocation. Subsection (b) of the bill would make this provision permanent.

Subsection (c) strikes out the last sentence of section 379c(a) of the Agricultural Adjustment Act of 1938, which was added by the Agricultural Act of 1964 and provided for two kinds of certificates, domestic and export. By striking this sentence, subsection (b) provides for only one type of certificate. (The other reference in sec. 379c(a) to two types of certificates is deleted by an amendment made by sec. 5(a) of the bill.)

Subsection (d) amends the provision of section 379(c) fixing the face values for domestic and export certificates to provide for fixing a face value for a single type of certificate.

Certificates for prior crop wheat if current crop underplanted—storage of excess wheat

Section 5(a) would permit marketing certificates to be issued in the full normal amount when a producer reducing his acreage is in a position to market uncertificated wheat on hand from a prior crop, whether stored under bond pursuant to section 379c(b) of the Agricultural Adjustment Act of 1938, or otherwise. The farm wheat marketing allocation is the normal yield of the farm acreage allotment multiplied by the national allocation percentage. Under existing

law marketing certificates are to be issued for the farm wheat marketing allocation, but not more than the normal yield of the planted acreage, plus the amount of wheat stored from a previous crop under section 379c(b) or to avoid penalty which is released because of underplanting the allotment. Since the bill repeals marketing quotas, there no longer would be any wheat stored to avoid penalty, and reference to such wheat is omitted. The bill would permit certificates to be issued for any uncertificated wheat stored from a previous crop to make up the amount of the farm wheat marketing allocation. This would include wheat produced within a previous year's allotment, but in excess of that year's marketing allocation, as well as wheat stored under section 379c(b).

Subsection (b) of section 5 extends to 1966 and subsequent years the provisions enacted for the 1965 crop by section 202(13) of the Agricultural Act of 1964, which permit a producer who exceeds his allotment by not more than 50 percent to store his excess wheat and remain eligible for marketing certificates. Producers who store their excess in accordance with this provision also maintain eligibility for wheat price support under the provisions of section 107 of the Agricultural Act of 1949.

Subsection (b) in extending this provision would strike from it provisions relating to storage to avoid marketing penalties, which would have no meaning after repeal by the bill of provisions for marketing quotas.

*Authority to suspend requirement for purchase of certificates by processors—
certificates and required on exports*

Section 6 would authorize the President to suspend the requirement that processors acquire marketing certificates to cover the amount of wheat processed by them for domestic food consumption. This section also repeals the requirement that exporters acquire marketing certificates for wheat exported by them, since it is the purpose of the bill that the noncertificate wheat move freely into export. The President might suspend the requirement that processors acquire certificates either in whole or in part. If he determined, for instance, that the regulation of commerce would be better served by requiring the processors to acquire certificates for a part of the wheat processed by them, he could so provide. The suspension might be for an entire marketing year or a shorter or longer period, as determined by the President.

Repeal of monetary penalties for production on diverted acres

Section 7 repeals the provision for monetary penalties for producing crops on acreage required to be diverted from wheat. Producers would continue, however, to be subject to loss of eligibility for wheat price support and marketing certificates, if they produced crops on such acreage. The Agricultural Act of 1964 made similar provision with respect to the 1964 and 1965 crops.

Extension of wheat acreage diversion payment program

Section 8 extends the wheat acreage diversion payment program permanently and provides for a mandatory payment rate equal to 50 percent of the noncertificate support price times the normal production of the acreage diverted from wheat. The existing provision, which terminates with the 1965 crop, is discretionary on the part of the Secretary; and the amount of the payment, within the specified maximum, is also discretionary. Beginning with the 1966 crop, the Secretary would be required to formulate and carry out a program providing payments on acreage diverted from wheat by reason of the reduction of the national acreage allotment below 55 million acres, and the payment rate would be fixed by law at 50 percent of the noncertificate support rate multiplied by the normal production of the acreage diverted. The Secretary could permit diversion of up to an additional 20 percent of the farm acreage allotment at the same payment rate.

Effective date

Section 9 would make the bill effective with the 1966 crop. Subject to adjustment as provided by law, the acreage allotments heretofore established for the 1966 crop would remain in effect.

SUGGESTED AMENDMENTS

1. S. 2025, introduced by Senator Young and others since introduction of S. 939, contains a revised section 3 (relating to the million-acre special reserve), and it may be that section 3 of S. 2025 should be substituted for section 3 of S. 939. Both sections provide for a flat 1 million-acre reserve (rather than not

more than 1 million acres). However, under S. 2025 the special reserve would be provided only for the 1966 crop. There would be no specific limitations based on a percentage of the average ratio of wheat acreage allotment to cropland as at present, but the Secretary would be given broad discretion and could provide for an appropriate limitation based on the ratio of allotment to cropland so long as it did not prevent apportionment of the entire 1 million-acre reserve. The acreage history of States, counties, and farms would be adjusted so that the relative advantage of the increases provided in 1966 from the reserve would be maintained in subsequent years. Similar increases in acreage history would be made for farms which received no increase or an inadequate increase from the reserve in 1966 because, under their crop rotation system, their allotment for 1966 was zero, or otherwise disproportionately low when compared to their allotments for other years.

2. On page 5, line 17, "section 334(c)" might be changed to "section 334(c) (1)" for more precise identification.

3. Section 8 of the bill provides that for purposes of diversion payments a producer will not be deemed to have exceeded his allotment, if he stores his excess pursuant to section 379c(b). This is consistent with the existing law, which makes similar provision for a producer who stores his excess to avoid penalty when quotas are in effect. It is also consistent with the 1965 diversion program, under which a producer who exceeds his allotment on one farm and stores the excess under section 379c(b) is permitted to receive payments for diverting wheat acreage on another farm. However, it does not appear to be consistent with section 379c(b) which provides for such storage to maintain eligibility for marketing certificates, "but not for purposes of diversion payments." To make these provisions consistent, section 379c(b) should be amended to make it applicable for purposes of diversion payments as well as marketing certificates. This could be done by striking out lines 5 and 6 on page 11, and inserting:

year 1965."; (2) "but not for purposes of diversion payments under subsection (b) of section 339,"; (3) "or stored in order to avoid or postpone a marketing quota penalty"; and (4) "or in order to avoid

4. A national acreage allotment of 47.8 million acres for the 1966 crop was proclaimed on April 14. Since this is below the minimum required by the bill, the last sentence of section 9 should be changed to provide for proclamation of a production objective and new national acreage allotment for 1966.

JUNE 9, 1965.

[S. 994, 89th Cong., 1st sess.]

A BILL To extend the operation of the National Wool Act of 1954, as amended

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in section 703 of the National Wool Act of 1954, as amended (68 Stat. 910; 72 Stat. 994; 75 Stat. 306), the second sentence is amended to read as follows: "Such price support shall be limited to wool and mohair marketed during the period beginning April 1, 1955, and ending December 31, 1972."

[S. 1563, 89th Cong., 1st sess.]

A BILL To amend the Agricultural Act of 1949, as amended, relating to price support for milk and butterfat, to encourage consumption of dairy products, particularly butter, by payments on manufacturing milk and cream, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Dairy Consumption Incentive Act of 1965."

SEC. 2. Milk is a basic source of the Nation's food supply. The production and use of abundant supplies of milk and its products are essential to the health and general welfare of the Nation. Dairy farming, which is carried on in every State of the Nation and is an important source of farm income, constitutes a vital segment of the agricultural and national economy. It is in the national interest that there be adequate and balanced supplies of milk and its products. Accumulation by Commodity Credit Corporation of storage stocks of dairy products, particularly butter, in excess of the quantities which can be used in the public interest in school lunch, welfare, and other outlets, is a costly and uneconomic method of supporting prices to producers for milk and milkfat, involving serious storage space problems and risk of loss.

It is preferable that such excess supplies be consumed in the domestic commercial markets and that the industry be encouraged and aided in promoting expanded use of dairy products, particularly butter. This can be accomplished by authorizing the Secretary to make payments to producers, either directly or through dairy products manufacturing plants acting as his agents, on milk and milkfat in cream used in manufacturing butter and such other dairy products containing milkfat as he deems advisable, as a method of price support, when in his judgment such payments will be effective in encouraging increased sales of such products through incentive pricing of them to consumers in the markets, in avoiding acquisition and accumulation of excessive stocks under price support operations, and in protecting dairy farm income while producers are adjusting supplies more nearly to market demand.

SEC. 3. The first sentence of section 201 of the Agricultural Act of 1949, as amended, is further amended by deleting the words "milk, butterfat, and the products of milk and butterfat" and inserting in lieu thereof the words "milk, and milkfat in farm-separated cream."

SEC. 4. Subsection (c) of section 201 of the Agricultural Act of 1949 (7 U.S.C. 1446(c)) is amended to read as follows:

"(c) (1) The prices of milk and milkfat in cream shall be supported, through purchases of milk and the products of milk and milkfat and through consumption incentive payments, at such level not less than 75 per centum and not in excess of 90 per centum of the parity prices of milk and milkfat, taking into consideration (i) the supply of milk in relation to the demand therefor, (ii) the importance of milk to agriculture and the national economy, (iii) the ability to dispose of stocks of dairy products acquired through price support operations, and (iv) the need of dairy farmers for a fair return on their labor and investment."

SEC. 5. Notwithstanding any provisions of the Agricultural Marketing Agreement Act of 1937, as amended, in all orders which base the computation of the minimum class prices for milk in the higher valued use classifications upon the price or value of milk for manufacturing, such prices for the milk in the higher valued use classifications shall be based upon the price or value of milk for manufacturing plus any payment on milk for manufacturing.

STAFF EXPLANATION OF S. 1563 (SUBCOMMITTEE No. 3)

This bill would—

(1) make it clear that milk and milkfat in farm separated cream, that is, the products produced by farmers, are the dairy products for which price support is provided;

(2) increase the support level (within the 75 to 90 percent of parity range) from such level as is necessary to assure an adequate supply to a level determined after considering four enumerated factors;

(3) authorize payments as a method of price support; and

(4) make it clear that payments are to be considered as part of the manufacturing milk value for the purpose of any marketing order which fixes minimum prices for other use classifications upon the manufacturing milk price.

The adequate supply criterion has held the support level for dairy products at 75 percent of parity for some years. Use of the formula provided by the bill would permit a higher support level.

JUNE 15, 1965.

[S. 1702, 89th Cong., 1st sess.]

A BILL To maintain farm income, to stabilize prices and assure adequate supplies of agricultural commodities, to reduce surpluses, lower Government costs and promote foreign trade, to afford greater economic opportunity in rural areas, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Food and Agriculture Act of 1965".

TITLE I—WHEAT

SEC. 101. Effective beginning with the crop planted for harvest in the calendar year 1966, the Agricultural Adjustment Act of 1938, as amended, is amended as follows:

(1) Section 332 is amended by changing item (iv) in subsection (b) to read: "will be utilized during such marketing year in the United States as livestock (including poultry) feed, excluding the estimated quantity of wheat which will be utilized for such purpose as a result of the substitution of wheat for feed grains under section 328 of the Food and Agriculture Act of 1962" and by adding the following new subsection:

"(d) Notwithstanding any other provisions of this act, the Secretary shall not proclaim a national marketing quota for the crops of wheat planted for harvest in the calendar years 1966 and 1967, and farm marketing quotas shall not be in effect for such crops of wheat."

(2) Section 333 is amended to read as follows: "The Secretary shall proclaim a national acreage allotment for each crop of wheat. The amount of the national acreage allotment for any crop of wheat shall be the number of acres which the Secretary determines on the basis of the projected national yield and expected underplanting (acreage other than that not harvested because of program incentives) of farm acreage allotments will produce an amount of wheat equal to the national marketing quota for wheat for the marketing year for crop or, if a national marketing quota was not proclaimed, the quota which would have been determined if one had been proclaimed. The Secretary may, in his discretion, adjust such national acreage allotment as he determines necessary to assure the maintenance of adequate but not excessive stocks in the United States."

(3) Subsection (a) of section 334 is amended to read as follows:

"(a) The national allotment for wheat, less a reserve of not to exceed one per centum thereof for apportionment as provided in this subsection and less the special acreage reserve provided for in this subsection, shall be apportioned by the Secretary among the States on the basis of the preceding year's allotment for each such State, including for 1966 the increased acreage in the State allotted for 1965 under section 335, adjusted to the extent deemed necessary by the Secretary to establish a fair and equitable apportionment base for each State, taking into consideration established crop-rotation practices, estimated decrease in farm allotments because of loss of history, and other relevant factors. The reserve acreage set aside herein for apportionment by the Secretary shall be used to make allotments to counties in addition to the county allotments made under subsection (b) of this section, on the basis of the relative needs of counties for additional allotments because of reclamation and other new areas coming into production of wheat. There also shall be made available a special acreage reserve of not in excess of one million acres as determined by the Secretary to be desirable for the purposes hereof which shall be in addition to the national acreage reserve provided for in this subsection. Such special acreage reserve shall be made available to the States to make additional allotments to counties on the basis of the relative needs of counties, as determined by the Secretary, for additional allotments to make adjustments in the allotments on old wheat farms (i.e., farms on which wheat has been seeded or regarded as seeded to one or more of the three crops immediately preceding the crop for which the allotment is established) on which the ratio of wheat acreage allotment to cropland on the farm is less than one-half the average ratio of wheat acreage allotment to cropland on old wheat farms in the county. Such adjustments shall not provide an allotment for any farm which would result in an allotment-cropland ratio for the farm in excess of one-half of such county average ratio and the total of such adjustments in any county shall not exceed the acreage made available therefor in the county. Such apportionment from the special acreage reserve shall be made only to counties where wheat is a major income-producing crop, only to farms on which there is limited opportunity for the production of an alternative income-producing crop, and only if an efficient farming operation on the farm requires the allotment of additional acreage from the special acreage reserve. For the purposes of making adjustments hereunder the cropland on the farm shall not include any land developed as cropland subsequent to the 1963 crop year."

(4) Subsection (b) of section 334 is amended to read as follows:

“(b) The State acreage allotment for wheat, less a reserve of not to exceed 3 per centum thereof for apportionment as provided in subsection (c) of this section, shall be apportioned by the Secretary among the counties in the State, on the basis of the preceding year's wheat allotment in each such county, including for 1966 the increased acreage in the county allotted for 1965 pursuant to section 335, adjusted to the extent deemed necessary by the Secretary in order to establish a fair and equitable apportionment base for each county, taking into consideration established crop-rotation practices, estimated decrease in farm allotments because of loss of history, and other relevant factors.”

(5) Subsection (c) of section 334 is amended by adding new paragraphs (3) and (4) to read as follows:

“(3) Notwithstanding the provisions of paragraph (1) of this subsection, the past acreage of wheat for 1966 and any subsequent year shall be the acreage of wheat planted, plus the acreage regarded as planted, for harvest as grain on the farm which is not in excess of the farm acreage allotment.

“(4) Notwithstanding any other provision of this subsection (c), the farm acreage allotment for the 1966 and any subsequent crop of wheat shall be established for each old farm by apportioning the county wheat acreage allotment among farms in the county on which wheat has been planted, or is considered to have been planted, for harvest as grain in any one of the three years immediately preceding the year for which allotments are determined on the basis of past acreage of wheat and the farm acreage allotment for the year immediately preceding the year for which the allotment is being established, adjusted as hereinafter provided. For purposes of this paragraph, the acreage allotment for the immediately preceding year may be adjusted to reflect established crop-rotation practices, may be adjusted downward to reflect a reduction in the tillable acreage on the farm, and may be adjusted to reflect such other factors as the Secretary determines should be considered for the purpose of establishing a fair and equitable allotment: *Provided*, That (i) for purposes of computing the 1966 allotment for any farm not in compliance with its 1964 farm acreage allotment, the 1965 acreage allotment shall be reduced by 7 per centum; (ii) for the purposes of computing the allotment for any year, the acreage allotment for the farm for the immediately preceding year shall be decreased by 7 per centum if for the year immediately preceding the year for which such reduction is made neither a voluntary diversion program nor a certificate program was in effect and there was noncompliance with the farm acreage allotment for such year; and (iii) for purposes of clause (ii), any farm on which the entire amount of farm marketing excess is delivered to the Secretary, stored, or adjusted to zero in accordance with applicable regulations to avoid or postpone payment of the penalty when farm marketing quotas are in effect, shall be considered in compliance with the allotment, but if any part of the amount of wheat so stored is later depleted and penalty becomes due by reason of such depletion, the allotment for such farm next computed after determination of such depletion shall be reduced by reducing the allotment for the immediately preceding year by 7 per centum.”

(6) Subsection (d) of section 334 is repealed.

(7) Subsection (g) of section 334 is amended by striking out the language “except as prescribed in the provisos to the first sentence of subsections (a) and (b), respectively, of this section” in the first sentence.

(8) Section 335 is amended by adding at the end thereof the following: “This section shall not be applicable to the crops planted for harvest in 1966 and subsequent years.”

(9) Section 339(b) is amended (1) by striking out “1964 and 1965 crops of wheat” and substituting “crops of wheat planted for harvest in the calendar years 1964 through 1967”, (2) by striking out of the first sentence “payments may be made in amounts not in excess of 50 per centum of the estimated basic county support rate for wheat not accompanied by marketing certificates on the normal production of the acreage diverted taking into account the income objectives of the Act, determined by the Secretary to be fair and reasonable with respect to acreage diverted pursuant to subsection (a) of this section” and substituting “payments may be made with respect to acreage diverted at such rate or rates as the Secretary determines will provide producers with a fair and reasonable return for the acreage diverted, taking into consideration the loss of production on such acreage based on the projected farm yield, any savings in cost which result from such diversion, the incentive necessary to obtain participation in the program, and the income objectives of the Act”, and (3) by striking out of the third sentence “20 per centum of the farm acreage allotment” and “fifteen acres”

and substituting "50 per centum of the farm acreage allotment" and "twenty-five acres", respectively.

(10) Section 339(e) is amended to read as follows: "The Secretary may permit all or any part of the diverted acreage to be devoted to the production of guar, sesame, safflower, sunflower, castor beans, mustard seed, soybeans and flax, if he determines that such production of the commodity is needed to provide an adequate supply, is not likely to increase the cost of the price support program and will not adversely affect farm income, subject to the condition that payment with respect to diverted acreage devoted to any such crop shall be at a rate determined by the Secretary to be fair and reasonable taking into consideration the use of such acreage for the production of such crops: *Provided*, That in no event shall the payment exceed one-half the rate which otherwise would be applicable if such acreage were devoted to conservation uses."

(11) Section 377 is amended by deleting from the first sentence the language in parentheses and by changing the colon before the first proviso of such sentence to a period and striking out the remainder of such sentence.

(12) Section 379c is amended by adding the following new subsection:

"(e) Notwithstanding any other provision of law, the amount of certificates issued with respect to any farm may be adjusted by the Secretary for failure of a producer to comply fully with the terms and conditions of the program formulated under this subtitle."

SEC. 102. Effective only with respect to the crops of wheat planted for harvest in the calendar years 1966 and 1967, and the marketing years for such crops, section 379b is amended to read as follows:

"SEC. 379b. A wheat marketing allocation program as provided in this subtitle shall be in effect for the marketing years for the crops planted for harvest in the calendar years 1966 and 1967. Whenever a wheat marketing allocation program is in effect for any marketing year the Secretary shall determine (1) the wheat marketing allocation for such year which shall be (i) the amount of wheat he estimates will be used during such year for food products for consumption in the United States and (ii) that portion of the amount of wheat which he estimates will be exported in the form of wheat or products thereof during the marketing year on which the Secretary determines that marketing certificates shall be issued to producers in order to achieve, insofar as practicable, the price and income objectives of this subtitle, and (2) the national allocation percentage for such year which shall be the percentage which the national marketing allocation is of the amount of the national marketing quota for wheat that would be determined for such marketing year if a national marketing quota for such year had been proclaimed less the expected production on the acreage allotments for farms which will not be in compliance with the requirements of the program. Each farm shall receive a wheat marketing allocation for such marketing year equal to the number of bushels obtained by multiplying the number of acres in the farm acreage allotment for wheat by the projected farm yield, and multiplying the resulting number of bushels by the national allocation percentage."

SEC. 103. Effective beginning with the 1968 crop, section 379b is amended by striking out "normal yield of wheat for the farm as determined by the Secretary" and substituting "projected farm yield".

SEC. 104. (a) Effective upon the enactment of this Act, section 379d(b) is amended by striking out the third sentence and substituting the following: "The Secretary may exempt from the requirements of this subsection wheat exported for donation abroad and other noncommercial exports of wheat, wheat processed for use on the farm where grown, wheat produced by a State or agency thereof and processed for use by the State or agency thereof, wheat processed for donation, and wheat processed for uses determined by the Secretary to be noncommercial. Such exemptions may be made applicable with respect to any wheat processed or exported beginning July 1, 1964. There shall be exempt from the requirements of this subsection beverage distilled from wheat prior to July 1, 1964. A beverage distilled from wheat after July 1, 1964, shall be deemed to be removed for sale or consumption at the time it is placed in barrels for aging. Wheat shipped to a Canadian port for storage in bond, or storage under a similar arrangement, and subsequent exportation, shall be deemed to have been exported for purposes of this subsection when it is exported from the Canadian port."

(b) Section 379d(d) is amended to read as follows:

"(d) As used in this subtitle, the term 'food products' means any product composed wholly or partly of wheat to be used for human consumption, including beverage, as determined by the Secretary."

This subsection shall be effective as to food products sold, or removed for sale or consumption on or after sixty days following enactment of this Act, unless the Secretary shall by regulation designate an earlier effective date within such sixty-day period.

SEC. 105. The Agricultural Act of 1964 is amended as follows:

(1) Amendment (7) of section 202 is amended by striking out "1964 and 1965" and substituting "the calendar years 1964 through 1967".

(2) Amendment (13) of section 202 is amended by striking out "only with respect to the crop planted for harvest in the calendar year 1965" and substituting "with respect to the crops planted for harvest in the calendar years 1965 through 1967".

(3) Section 204 is amended by striking out "1964 and 1965" and substituting "1964 through 1967".

SEC. 106. Effective beginning with the 1966 crop, section 107 of the Agricultural Act of 1949, as amended, is amended to read as follows:

"SEC. 107. Notwithstanding the provisions of section 101 of this Act, beginning with the 1966 crop—

"(1) Whenever a wheat marketing allocation program is in effect, (a) price support for wheat accompanied by domestic certificates shall be at such level, not less than 65 per centum or more than 100 per centum of the parity price therefor, as the Secretary determines, (b) price support for wheat accompanied by export certificates shall be at such level, not in excess of the parity price therefor, as the Secretary determines, and (c) price support for wheat not accompanied by marketing certificates shall be at such level, not in excess of the parity price therefor, as the Secretary determines appropriate, taking into consideration competitive world prices of wheat, the feeding value of wheat in relation to feed grains, and the level at which price support is made available for feed grains.

"(2) Whenever a wheat marketing allocation program is not in effect, the level of price support for any crop of wheat for which a national marketing quota is not proclaimed or for which marketing quotas have been disapproved by producers shall be as provided in section 101.

"(3) A 'cooperator' with respect to any crop of wheat produced on a farm shall be a producer who (i) does not knowingly exceed (A) the farm acreage allotment for wheat on the farm or (B) except as the Secretary may by regulation prescribe, the farm acreage allotment for wheat on any other farm on which the producer shares in the production of wheat, and (ii) complies with the land-use requirements of section 339 of the Agricultural Adjustment Act of 1938, as amended, to the extent prescribed by the Secretary. No producer shall be deemed to have exceeded a farm acreage allotment for wheat if the entire amount of the farm marketing excess is delivered to the Secretary or stored in accordance with applicable regulations to avoid or postpone payment of the penalty, but the producer shall not be eligible to receive price support on such marketing excess. No producer shall be deemed to have exceeded a farm acreage allotment for wheat if the production on the acreage in excess of the farm acreage allotment is stored pursuant to the provisions of section 379c(b), but the producer shall not be eligible to receive price support on the wheat so stored."

SEC. 107. Effective beginning with the crop planted for harvest in the calendar year 1966, section 339(a) of the Agricultural Adjustment Act of 1938, as amended, is amended by inserting after the words "national acreage allotment", wherever they appear, the following: "(less an acreage equal to the increased acreage allotted for 1965 pursuant to section 335)".

SEC. 108. Effective beginning with the crop planted for harvest in the calendar year 1966, section 379c(a) of the Agricultural Adjustment Act of 1938, as amended, is amended by amending the third sentence to read as follows: "The Secretary shall provide for the sharing of wheat marketing certificates among producers on the farm on a fair and equitable basis.", and by adding at the end thereof the following: "An acreage on the farm not planted to wheat because of drought, flood, or other natural disaster shall be deemed to be an actual acreage of wheat planted for harvest for purposes of this subsection."

SEC. 109. Section 301(b) of the Agricultural Adjustment Act of 1938, as amended, is amended as follows:

(1) Paragraph (8) is amended by inserting "(A)" after "(8)" and adding the following new subparagraph:

"(B) 'Projected national yield' as applied to any crop of rice or wheat shall be determined on the basis of the national yield per harvested acre of

the commodity during each of the five calendar years immediately preceding the year in which such projected national yield is determined, adjusted for abnormal weather conditions affecting such yield, for trends in yields and for any significant changes in production practices.”

(2) Paragraph (13) is amended by adding the following new subparagraphs:

“(J) ‘Projected county yield’ for any crop of rice or wheat shall be determined on the basis of the yield per harvested acre of such crop in the county during each of the five calendar years immediately preceding the year in which such projected county yield is determined, adjusted for abnormal weather conditions affecting such yield, for trends in yields and for any significant changes in production practices.

“(K) ‘Projected farm yield’ for any crop of rice or wheat shall be determined on the basis of the yield per harvested acre of such crop on the farm during each of the three calendar years immediately preceding the year in which such project farm yield is determined, adjusted for abnormal weather conditions affecting such yield, for trends in yields and for any significant changes in production practices.”

SEC. 110. (a) Section 379c(b) of the Agricultural Adjustment Act of 1938, as amended, is amended, effective beginning with the 1966 crop, by striking out of the fifth sentence the words “normal yield of wheat per acre established for the farm” and substituting therefor the words “projected farm yield”.

(b) Section 379i of the Agricultural Adjustment Act of 1938, as amended, is amended, effective as of the effective date of the original enactment of the section, by inserting in subsections (a) and (b) after the word “who”, wherever it appears, the word “knowingly”.

SEC. 111. (a) Effective beginning with the crop planted for harvest in 1966, paragraph (9) of section 301(b) of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

“(9) ‘Normal production’ as applied to any number of acres of rice or wheat means the projected farm yield times such number of acres and, as applied to any number of acres of cotton, means the normal yield for the farm times such number of acres.”

(b) Public Law 74, Seventy-seventh Congress, as amended, is amended by changing the words “normal yield of wheat per acre established for the farm” in paragraph (1) to the words “project farm yield”.

TITLE II—FEED GRAINS

SEC. 201. Section 105 of the Agricultural Act of 1949, as amended, is amended by adding the following new subsection (e):

“(e) For the 1966 and 1967 crops of feed grains, the Secretary shall require as a condition of eligibility for price support on the crop of any feed grain which is included in any acreage diversion program formulated under section 16(i) of the Soil Conservation and Domestic Allotment Act, as amended, that the producer shall participate in the diversion program to the extent prescribed by the Secretary, and, if no diversion program is in effect for any crop, he may require as a condition of eligibility for price support on such crop of feed grains that the producer shall not exceed his feed grain base. In addition to price support provided under subsections (a) and (b) of this section, which shall be made available through loans and purchases, for any feed grain included in the acreage diversion program, a payment-in-kind may be made available to producers in such amount or amounts as the Secretary determines desirable to assure that the benefits of the price support and diversion programs inure primarily to those producers who cooperate in reducing their acreages of feed grains, and to take into account the extent of participation by the producer. Such payments-in-kind shall be made on such part of the acreage of such feed grain planted on the farm for harvest as the Secretary determines desirable to effectuate the purposes of the program: *Provided*, That for purposes of such payments, the Secretary may permit producers of feed grains to have acreage devoted to soybeans considered as devoted to the production of feed grains to such extent and subject to such terms and conditions as the Secretary determines will not impair the effective operation of the price support program. The Secretary may make not to exceed 50 per centum of any payments hereunder to producers in advance of determination of performance. Payments-in-kind shall be made through the issuance of negotiable certificates which the Commodity Credit Corporation shall redeem for feed grains (such feed grains to be valued by the Secretary at not less than the current support price made available through loans and purchases,

plus reasonable carrying charges) in accordance with regulations prescribed by the Secretary and, notwithstanding any other provision of law, the Commodity Credit Corporation shall, in accordance with regulations prescribed by the Secretary, assist the producer in the marketing of such certificates. The Secretary shall provide for the sharing of such certificates among producers on the farm on a fair and equitable basis. If the operator of the farm elects to participate in the acreage diversion program, price support for feed grains included in the program shall be made available to the producers on such farm only if such producers divert from the production of such feed grains, in accordance with the provisions of such program, an acreage on the farm equal to the number of acres which such operator agrees to divert, and the agreement shall so provide. Notwithstanding any other provision of law, payments in kind under this subsection (e) and subsection (d) of this section may be adjusted by the Secretary for failure of a producer to comply fully with the terms and conditions of the programs formulated under such subsections and section 16 of the Soil Conservation and Domestic Allotment Act, as amended."

SEC. 202. Section 16 of the Soil Conservation and Domestic Allotment Act, as amended, is amended by adding the following new subsection:

"(i) Notwithstanding any other provision of law—

"(1) For the 1966 and 1967 crops of feed grains, if the Secretary determines that the total supply of feed grains will, in the absence of an acreage diversion program, likely be excessive, taking into account the need for an adequate carryover to maintain reasonable and stable supplies and prices of feed grains and to meet any national emergency, he may formulate and carry out an acreage diversion program for feed grains, without regard to provisions which would be applicable to the regular agricultural conservation program, under which, subject to such terms and conditions as the Secretary determines, conservation payments shall be made to producers who divert acreage from the production of feed grains to an approved conservation use and increase their average acreage of cropland devoted in 1959 and 1960 to designated soil-conserving crops or practices including summer fallow and idle land by an equal amount. Payments shall be made at such rate or rates as the Secretary determines will provide producers with a fair and reasonable return for the acreage diverted, taking into consideration the loss of production on such acreage, any savings in cost which result from such diversion, the incentive necessary to achieve the acreage reduction goal, and the payments in kind made available under section 105(e) of the Agricultural Act of 1949, as amended. Notwithstanding the foregoing provisions, the Secretary may permit all or any part of such diverted acreage to be devoted to the production of guar, soybeans, sesame, safflower, sunflower, castor beans, mustard seed, and flax, if he determines that such production of the commodity is needed to provide an adequate supply, is not likely to increase the cost of the price support program and will not adversely affect farm income subject to the condition that payment with respect to diverted acreage devoted to any such crop shall be at a rate determined by the Secretary to be fair and reasonable, taking into consideration the use of such acreage for the production of such crops, but in no event shall the payment exceed one-half the rate which otherwise would be applicable if such acreage were devoted to conservation uses. The term 'feed grains' means corn, grain sorghums, and, if designated by the Secretary, barley. Such feed grain diversion program shall require the producer to take such measures as the Secretary may deem appropriate to keep such diverted acreage free from erosion, insects, weeds, and rodents. The acreage eligible for participation in the program shall be such acreage (not to exceed 50 per centum of the average acreage on the farm devoted to feed grains in the crop years 1959 and 1960 or twenty-five acres, whichever is greater) as the Secretary determines necessary to achieve the acreage reduction goal for the crop. Payments shall be made in kind. The acreage of wheat produced on the farm during the crop years 1959, 1960, and 1961, pursuant to the exemption provided in section 335(f) of the Agricultural Adjustment Act of 1938, as amended, prior to its repeal by the Food and Agricultural Act of 1962, in excess of the small farm base acreage for wheat established under section 335 of the Agricultural Adjustment Act of 1938, as amended, may be taken into consideration in establishing the feed grain base acreage for the farm. The Secretary may make such adjustments in acreage as he determines necessary to correct for abnormal factors affecting production,

and to give due consideration to tillable acreage, crop-rotation practices, types of soil, soil and water conservation measures, and topography. Notwithstanding any other provision of this subsection (i)(1), the Secretary may, upon unanimous request of the State committee established pursuant to section 8(b) of the Soil Conservation and Domestic Allotment Act, as amended, adjust the feed grain bases for farms within any State or county to the extent he determines such adjustment to be necessary in order to establish fair and equitable feed grain bases for farms within such State or county. The Secretary may make not to exceed 50 per centum of any payments to producers in advance of determination of performance.

“(2) Notwithstanding any other provision of this subsection, not to exceed 1 per centum of the estimated total feed grain bases for all farms in a State for any year may be reserved from the feed grain bases established for farms in the State for apportionment to farms on which there were no acreages devoted to feed grains in the crop years 1959 and 1960 on the basis of the following factors: Suitability of the land for the production of feed grains, the past experience of the farm operator in the production of feed grains, the extent to which the farm operator is dependent on income from farming for his livelihood, the production of feed grains on other farms owned, operated, or controlled by the farm operator, and such other factors as the Secretary determines should be considered for the purpose of establishing fair and equitable feed grain bases. An acreage equal to the feed grain base so established for each farm shall be deemed to have been devoted to feed grains on the farm in each of the crop years 1959 and 1960 for purposes of this subsection except that producers on such farm shall not be eligible for conservation payments for the first year for which the feed grain base is established.

“(3) There are hereby authorized to be appropriated such amounts as may be necessary to enable the Secretary to carry out this section 16(i).

“(4) The Secretary shall provide by regulations for the sharing of payments under this subsection among producers on the farm on a fair and equitable basis and in keeping with existing contracts.

“(5) Payments in kind shall be made through the issuance of negotiable certificates which the Community Credit Corporation shall redeem for feed grains in accordance with regulations prescribed by the Secretary and, notwithstanding any other provision of law, the Commodity Credit Corporation shall, in accordance with regulations prescribed by the Secretary, assist the producer in the marketing of such certificates. Feed grains with which Commodity Credit Corporation redeems certificates pursuant to this paragraph shall be valued at not less than the current support price made available through loans and purchases, plus reasonable carrying charges.

“(6) Notwithstanding any other provision of law, the Secretary may, by mutual agreement with the producer, terminate or modify any agreement previously entered into pursuant to this subsection if he determines such action necessary because of an emergency created by drought or other disaster, or in order to prevent or alleviate a shortage in the supply of feed grains.”

SEC. 203. Section 326 of the Food and Agriculture Act of 1962, as amended, is amended by deleting the language beginning with “the requirements” and ending with “Agricultural Act of 1961, and” and substituting therefor “the requirements of any program under which price support is extended or payments are made to farmers, and price support may be extended or”.

TITLE III—RICE

SEC. 301. The Agricultural Adjustment Act of 1938, as amended, is amended by striking out sections 380a through 380p and substituting the following:

“SEC. 380a. The movement of rice from producer to consumer is preponderantly in interstate and foreign commerce, and the small quantity of rice which does not move in interstate or foreign commerce affects such commerce. Unreasonably low prices of rice to producers impair their purchasing power for non-agricultural products and place them in a position of serious disparity with other industrial groups. The conditions affecting the production of rice are such that without Federal assistance, producers cannot effectively prevent disastrously low prices for rice. It is necessary in order to assist rice producers in obtaining fair prices, to regulate the price of rice in the manner provided in this subtitle.

"RICE MARKETING ALLOCATION

"SEC. 380b. If marketing quotas are in effect for rice for the 1966 or 1967 crop, a rice marketing allocation program for the marketing year for such crop shall be in effect as provided in this subtitle. Whenever a rice marketing allocation program is in effect for any marketing year, the Secretary shall determine (1) the rice marketing allocation for such year which shall be the amount of rice which in determining the national acreage allotment for such year he estimated would be used for domestic consumption except for seed, and (2) the national allocation percentage which shall be the percentage which the national marketing allocation is of the amount of rice determined by multiplying the national acreage allotment by the projected national yield. Each farm shall receive a rice marketing allocation for such marketing year equal to the number of hundredweights obtained by multiplying the number of acres in the farm acreage allotment for rice by the projected farm yield of rice, and multiplying the resulting number of hundredweights by the allocation percentages established by the Secretary within the ranges prescribed in the schedule below: *Provided*, That in any State or administrative area in which farm rice acreage allotments are determined on the basis of past production of rice by the producers on the farm, each producer shall receive a rice marketing allocation determined by multiplying the producer's rice acreage allotment for such State or area by his projected yield of rice, as determined by the Secretary, and by multiplying the result of such allocation percentages.

Estimated production on allotted acres
(allotment multiplied by projected yield) :

Allocation percentage

First 500 hundredweights and less.	Not less than national allocation percentage or more than 50 per centum.
501 hundredweights to 1,500 hundred- weights, inclusive.	Not less than national allocation percentage or more than 45 per centum.
More than 1,500 hundredweights.	National allocation percentage.

The additional rice marketing certificates issued to producers as a result of using allocation percentages in excess of the national allocation percentage shall be financed by the Commodity Credit Corporation. The acreage allotment referred to in this section shall be the acreage allotment established under section 353(b) before any of such allotment is voluntarily surrendered or such allotment is increased by any reapportioned allotment as provided in section 353(e) of this Act.

"MARKETING CERTIFICATES

"SEC. 380c. (a) The Secretary shall provide for the issuance of rice marketing certificates for each marketing year for which a rice marketing allocation program is in effect for the purpose of enabling producers on any farm with respect to which certificates are issued to receive, in addition to the other proceeds from the sale of rice, an amount equal to the value of such certificates. The rice marketing certificates issued with respect to any farm for any marketing year shall be in the amount of the farm rice marketing allocation for such year, but not to exceed the actual acreage of rice planted on the farm for harvest in the calendar year in which the marketing year begins multiplied by the projected yield of rice for the farm as determined by the Secretary. The rice marketing certificates issued to any producer for any marketing year in any State or administrative area where producer allotments are established shall be in the amount of the producer's rice marketing allocation for such year, but not to exceed the actual acreage of rice planted by the producer in such State or area for harvest in the calendar year in which the marketing year begins multiplied by the producer's projected yield as determined by the Secretary. The Secretary shall provide for the sharing of rice marketing certificates among producers on the farm on a fair and equitable basis.

"(b) No producer shall be eligible to receive rice marketing certificates with respect to any farm for any marketing year in which a marketing quota penalty is assessed for any commodity on such farm.

"(c) Whenever a rice marketing allocation program is in effect for any marketing year, the Secretary shall determine and proclaim for such marketing year the face value per hundredweight of marketing certificates which shall be equal to the amount by which the level of price support for rice accompanied by certificates (certificate rice) exceeds the level of price support for rice not accompanied by certificates (noncertificate rice).

"(d) Marketing certificates and transfers thereof shall be represented by such documents, marketing cards, records, accounts, certifications, or other statements or forms as the Secretary may prescribe.

“(e) Notwithstanding any other provision of this Act, the amount of certificates issued with respect to any farm may be adjusted by the Secretary for failure of a producer to comply fully with the terms and conditions of the program formulated under this subtitle.

“MARKETING RESTRICTIONS

“SEC. 380d. (a) Marketing certificates shall be transferable only in accordance with regulations prescribed by the Secretary. Any unused certificates legally held by any person shall be purchased by Commodity Credit Corporation if tendered to the Corporation for purchase in accordance with regulations prescribed by the Secretary.

“(b) During any marketing year for which a rice marketing allocation program is in effect, all persons engaged in the processing of rice in the United States shall, prior to marketing any processed rice or removing processed rice for sale or consumption, acquire marketing certificates equivalent to the number of hundredweights of rice from which such processed rice was obtained, as determined by the Secretary of Agriculture. The requirements of this subsection shall not be applicable to rice which is both produced and processed in Puerto Rico or in any State for which no acreage allotment is established under section 353 of this Act. The Secretary may exempt from the requirements of this subsection (i) rice processed for donation, (ii) rice processed for use on the farm where grown, (iii) rice produced by a State or agency thereof and processed for use by the State or agency thereof, and (iv) rice processed for uses determined by the Secretary to be noncommercial. Marketing certificates shall be valid to cover only sales or removals for sale or consumption made during the marketing year with respect to which they are issued, and after being once used to cover a sale or removal for sale or consumption shall be void and shall be disposed of in accordance with regulations prescribed by the Secretary. Notwithstanding the foregoing provisions hereof, the Secretary may require marketing certificates issued for any marketing year to be acquired to cover sales or removals made on or after the date during the calendar year in which rice harvested in such calendar year begins to be marketed as determined by the Secretary even though such rice is marketed prior to the beginning of the marketing year, and marketing certificates for such marketing year shall be valid to cover sales or removals made on or after the date so determined by the Secretary.

“(c) Upon the exportation from the United States of any processed rice with respect to which certificates were acquired, the Commodity Credit Corporation shall pay to the exporter an amount equal to the value of the certificates for the rough rice equivalent of such processed rice. Such payments may be in cash or in kind, as determined by the Secretary.

“(d) Upon the giving of a bond or other undertaking satisfactory to the Secretary to secure the purchase of and payment for such marketing certificates as may be required, and subject to such regulations as he may prescribe, any person required to have marketing certificates in order to market processed rice or remove such rice for sale or consumption may be permitted to market or remove such rice without having first acquired marketing certificates.

“IMPORT RESTRICTIONS

“SEC. 380e. Each person who, on or after the beginning of the marketing year for each marketing year for which a rice marketing allocation program is in effect, imports processed rice into the United States shall acquire marketing certificates covering the rough rice equivalent of such processed rice.

“ASSISTANCE IN PURCHASE AND SALE OF MARKETING CERTIFICATES

SEC. 380f. For the purpose of facilitating the purchase and sale of marketing certificates, the Commodity Credit Corporation is authorized to issue, buy, and sell marketing certificates in accordance with regulations prescribed by the Secretary. Such regulations may authorize the Corporation to issue and sell certificates in excess of the quantity of certificates which it purchases. Such regulations may authorize the Corporation in the sale of marketing certificates to charge, in addition to the face value thereof, an amount determined by the Secretary to be appropriate to cover estimated administrative costs in connection with the purchase and sale of the certificates and estimated interest incurred on funds of the Corporation invested in certificates purchased by it.

“AUTHORITY TO FACILITATE TRANSITION

“SEC. 380g. The Secretary is authorized to take such action as he determines to be necessary to facilitate the transition from the program currently in effect to the program provided for in this subtitle. Notwithstanding any other provision of this subtitle, such authority shall include, but shall not be limited to, the authority to exempt all or a portion of the rice in rough or processed form in the channels of trade on the effective date of the program under this subtitle from the marketing restrictions in subsection (b) of section 380d, or to sell certificates to processors covering such rice at such prices as the Secretary may determine. Any such certificates shall be issued by the Commodity Credit Corporation.

“REPORTS AND RECORDS

“SEC. 380h. This section shall apply to processors, exporters, importers, and warehousemen of rice in rough or processed form and all persons purchasing, selling, or otherwise dealing in rice marketing certificates. Any such person shall, from time to time on request of the Secretary, report to the Secretary such information and keep such records as the Secretary finds to be necessary to enable him to carry out the provisions of this subtitle. Such information shall be reported and such records shall be kept in such manner as the Secretary shall prescribe. For the purpose of ascertaining the correctness of any report made or record kept, or of obtaining information required to be furnished in any report, but not so furnished, the Secretary is hereby authorized to examine such books, papers, records, accounts, correspondence, contracts, documents, and memorandums as he has reason to believe are relevant and are within the control of such person.

“REGULATIONS

“SEC. 380i. The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this subtitle, including but not limited to regulations governing the acquisition, disposition, or handling of marketing certificates.

“DEFINITIONS

“SEC. 380j. For the purposes of this subtitle—

“(a) ‘processing of rice’ means subjecting rough rice for the first time to any process which removes the husk or hull from the rice and results in the production of processed rice.

“(b) ‘processed rice’ mean ‘brown rice’ as defined in the United States Standards for Brown Rice, ‘milled rice’ as defined in the United States Standards for Milled Rice, including special grades of brown and milled rice, and such other rice as may be designated by the Secretary of Agriculture.

“(c) ‘United States’ means the several States, the District of Columbia, and the Commonwealth of Puerto Rico.

“(d) ‘rough rice equivalent’ means the quantity of rough rice normally used, as determined by the Secretary of Agriculture, in the production of a particular quantity and type of processed rice, with appropriate adjustments for broken kernels, as determined by the Secretary.

“(e) ‘import’ means to enter, or withdraw from warehouse, for consumption.”

SEC. 302. Section 379i of the Agricultural Adjustment Act of 1938, as amended, is amended (i) by inserting in subsection (a) after the words “subsection (b) of section 379(d)” the words “, subsection (b) of section 380d, or section 380e”, (ii) by inserting in subsection (b) after the words “this subtitle” the words “or subtitle E”, after the words “by section 379th” the words “and section 380”, and immediately preceding the words “marketing certificates” the words “wheat or rice” and (iii) by changing in subsection (d) the words “any marketing certificate” to read “any wheat or rice marketing certificate”.

SEC. 303. The Agricultural Act of 1949, as amended, is amended as follows:

(1) By inserting after section 107 the following new section:

“SEC. 108. Notwithstanding the provisions of section 101 of this Act, the level of price support for the crops of rice planted for harvest in the calendar years 1966 and 1967 shall be as follows:

“(1) If a rice marketing allocation program is in effect, price support for rice accompanied by marketing certificates shall be at such level, not less than 65 per centum or more than 100 per centum of the parity price therefor as the Secretary determines; and price support for rice not ac-

accompanied by marketing certificates shall be at such level, not more than the parity price therefor, as the Secretary determines will provide orderly marketing of rice during the harvest season and will retain an adequate share of the world market for United States rice producers, taking into consideration the factors specified in section 401(b) of this Act and the price of rice in world markets.

“(2) Price support shall be made available only to cooperators.

“(3) The level of price support for any crop of rice for which the Secretary determines that the total supply of rice for the marketing year will not exceed the normal supply or for which marketing quotas have been disapproved by producers shall be as provided in section 101.

“(4) A ‘cooperator’ with respect to any crop of rice produced on a farm shall be a producer who does not knowingly exceed (i) the farm acreage allotment for rice on the farm or (ii) except as the Secretary may by regulation prescribe, the farm acreage allotment for rice on any other farm on which the producer shares in the production of rice. If marketing quotas are not in effect for the crop of rice, a ‘cooperator’ with respect to any crop of rice produced on a farm shall be a producer who does not knowingly exceed the farm acreage allotment for rice.”

(2) By changing the period at the end of the third sentence in section 407 to a colon and adding the following: “*Provided further*, That if a rice marketing allocation program is in effect, the current support price for rice shall be the support price for rice not accompanied by marketing certificates.”

SEC. 304. Section 352 of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows effective beginning with the 1966 crop:

“SEC. 352. The national acreage allotment of rice for any calendar year shall be that acreage which the Secretary determines will, on the basis of the projected national yield and expected underplantings (acreage other than that not harvested because of program incentives) of farm acreage allotments, produce an amount of rice not less than sixty million hundredweights adequate, together with the estimated carryover from the marketing year ending in such calendar year, to make available a supply for the marketing year commencing in such calendar year equal to the estimated domestic consumption of rice for the marketing year for which the allotment is being determined, the estimated exports for such year, and an adequate carryover. Such national acreage allotment shall be proclaimed not later than December 31 of each year.”

SEC. 305. Section 353(c) of the Agricultural Adjustment Act of 1938, as amended, is amended by striking out paragraph 6.

SEC. 306. Section 353 of the Agricultural Adjustment Act of 1938, as amended, is amended by adding at the end thereof a new subsection (g) as follows:

“(g) If, beginning with the 1965 crop of rice, the owner or landlord of any farm in a State or administrative area in which rice acreage allotments are determined primarily on the basis of the past production of rice on the farms has evicted or evicts any tenant or sharecropper on his farm without just cause, or has required or requires that a tenant or sharecropper pay, in addition to the rental customarily paid in the community for similar land for rice production, a sum of money or anything of service of value, or has forced or forces a tenant or sharecropper by coercion, subterfuge, or in any manner whatsoever to vacate the farm of the owner or landlord or abandon the crop of rice produced by the tenant or sharecropper on such farm without just cause, as determined in accordance with regulations issued by the Secretary, the acreage allotment next established for the farm and for each succeeding year shall be reduced as provided in such regulations: *Provided*, That if the farm acreage allotment for a crop year has been established at the time the determination under this subsection is made but rice for such year has not been planted, the rice farm acreage allotment for such year and for each succeeding year shall be reduced as provided herein.”

TITLE IV—WOOL

SEC. 401. The National Wool Act of 1954, as amended, is amended as follows:

(1) By deleting the second sentence of section 702 and inserting in lieu thereof: “It is hereby declared to be the policy of Congress, as a measure of national security and in promotion of the general economic welfare, to support the price of wool in such manner and at such level as will encourage the domestic production of as much of the Nation’s requirements of wool as possible at prices fair to both producers and consumers, minimize the adverse effect upon foreign trade, and

not result in such an increase in lamb production as will depress lamb prices and reduce the total returns to producers from sheep production."

(2) By deleting from section 703 "March 31, 1966" and inserting in lieu thereof "December 31, 1967".

(3) Effective with respect to wool and mohair marketed after the close of the 1965 marketing year, by deleting from section 703 all of the provisions following the second sentence and substituting therefor the following: "The price for wool marketed by the producer thereof in the 1966 and 1967 marketing years shall be supported at such levels within the three ranges prescribed in the following schedule as the Secretary determines necessary to encourage production consistent with the declared policy of this title:

Quantity of wool (both shorn and pulled), grease basis, marketed by a producer:	Levels of support based on parity price on date of announcement thereof
First 2,000 pounds-----	Shall be supported at not less than 75 or more than 90 per centum of the parity price.
Next 5,000 pounds-----	Shall be supported at not less than 70 or more than 85 per centum of the parity price.
Excess over 7,000 pounds-----	Shall be supported at not less than 65 or more than 80 per centum of the parity price.

"The quantity of pulled wool marketed in the form of unshorn lambs shall be determined at the rate of four pounds of wool per hundredweight of live animals sold. The price for mohair marketed by the producer thereof in the 1966 and 1967 marketing years shall be supported at such levels as the Secretary determines are necessary to maintain approximately the same levels of support for mohair as for wool. Mohair support prices shall not deviate more than 15 per centum above or below the percentage of the parity price at which wool is supported within comparable weight ranges as determined by the Secretary. The Secretary shall, to the extent practicable, establish and announce the levels of price support for wool and mohair sufficiently in advance of each marketing year as will permit producers to plan their production for such marketing year."

TITLE V—CROPLAND ADJUSTMENT

SEC. 501. Section 107 of the Soil Bank Act, as amended, is amended as follows:

(1) By changing the word "three" in the first sentence of subsection (a) to the word "five".

(2) By deleting the word "or" immediately preceding the word "other" in paragraph (1) of subsection (a) and inserting immediately after the word "uses" a comma and the words "or practices or uses which will establish, protect, and conserve open spaces, natural beauty, wildlife and recreational resources, and prevent air and water pollution".

(3) By amending paragraph (4) of subsection (a) to read as follows:

"(4) Not to graze any acreage established in protective vegetative cover prior to the expiration of the contract except pursuant to the provisions of section 103(a) (3) hereof."

(4) By changing the word "all" to "such" in each of the two places it appears in paragraph (6) (A) of subsection (a), changing the period at the end of such paragraph to a comma, and adding the following: "as the Secretary may determine to be appropriate."

(5) By amending paragraph (1) of subsection (b) to read as follows:

"(1) To bear such part of the average cost (including labor) for the county or area in which the farm is situated of establishing and maintaining vegetative cover or other uses on the designated acreage as the Secretary determines to be necessary to effectuate the purposes of this title, but not to exceed a maximum amount per acre or facility prescribed by the Secretary for the county or area; and".

(6) By adding a new sentence at the end of paragraph (2) of subsection (b) to read as follows: "The Secretary may make the annual payments for all years of the contract period upon approval of the contract or in such installments as he determines to be desirable."

(7) By striking the first sentence of subsection (d) and substituting therefor the following: "A contract shall not be terminated under paragraph (6) of subsection (a) unless the violation is one which the Secretary has prescribed by regulation to be of such nature as to defeat or substantially impair the purposes of the contract."

(8) By adding a new subsection (e) at the end thereof to read as follows:

“(e) The total acreage placed under contract in any county shall be limited to a percentage of the total eligible acreage in such county which the Secretary determines would not adversely affect the economy of the county.”

SEC. 502. Section 109 of the Soil Bank Act, as amended, is amended as follows:

(1) By adding at the end of subsection (a) the following: “The Secretary is authorized to formulate and announce programs under this subtitle B and to enter into contracts thereunder with producers during the period 1965–1970 to be carried out during the period ending not later than December 31, 1979.”

(2) By inserting immediately after the word “cover” in subsection (b) the following: “entered into during the five-year period 1956–1960”.

(3) By deleting the words “\$450,000,000 in any calendar year” in subsection (c) and substituting therefor the following: “in excess of amounts specified from time to time in appropriation Acts.”

SEC. 503. Sections 111 and 114 of the Soil Bank Act, as amended, are amended as follows:

(1) Section 111 is amended by deleting the words “water storage facilities, or other soil-, water-, wildlife-, or forest-conserving” in subsections (a) and (b) and substituting therefor the word “other”.

(2) Section 114 is amended by deleting the first two words thereof and substituting therefor the words “Except as the Secretary may by regulation prescribe, no person”.

SEC. 504. Section 118 of the Soil Bank Act, as amended, is amended by inserting “(a)” after “SEC. 118.” and adding new subsections (b) and (c) as follows:

“(b) For the purpose of obtaining an increase in the permanent retirement of cropland to noncrop uses the Secretary may, notwithstanding any other provision of law, transfer funds appropriated for carrying out this title to any other Federal agency or to States or local governmental agencies for use in acquiring cropland for the preservation of open spaces, natural beauty, the development of wildlife and recreational facilities, and the prevention of air and water pollution.

“(c) The Secretary also is authorized to share the cost with State and local governmental agencies in the establishment of practices and uses which will establish, protect and conserve open spaces, natural beauty, wildlife and recreational resources, and prevent air and water pollution.”

SEC. 505. Section 123 of the Soil Bank Act, as amended, is repealed, except that such repeal shall not abate any penalty previously incurred by a producer.

SEC. 506. (a) Notwithstanding any other provision of law, the Secretary of Agriculture may, to the extent he deems it desirable, provide by appropriate regulations for preservation of cropland, crop acreage, and allotment history applicable to acreage diverted from the production of crops in order to establish or maintain vegetative cover or other approved practices for the purpose of any Federal program under which such history is used as a basis for an allotment or other limitation or for participation in such program.

(b) Section 112 of the Soil Bank Act, as amended, and subsections (b) (3) and (4) and (e) (6) of section 16 of the Soil Conservation and Domestic Allotment Act, as amended, are repealed, except that all rights accruing thereunder to persons who entered into contracts or agreements prior to such repeal shall be preserved.

TITLE VI—TRANSFER OF ALLOTMENTS

SEC. 601. Notwithstanding any other provision of law, the Secretary, if he determines that it will not impair the effective operation of the program involved, (1) may permit the owner and operator of any farm for which an acreage allotment, base acreage, acreage-poundage quota, or sugar proportionate share (hereinafter referred to as “allotment”) is established under any Federal statute which is based in whole or in part on the history of production of a commodity on the farm to sell or lease all or any part or the right to all or any part of such allotment to any other owner or operator of a farm for transfer to such farm; (2) may permit the producer to whom an allotment has been apportioned under any Federal statute primarily on the basis of the production of a commodity by the producer to sell, lease, or transfer by devise or other means all or any part or the right to all or any part of such producer allotment to another person; and (3) may permit the owner of a farm to transfer all or any part of such allotment to any other farm owned by him: *Provided*, That (i) no allotment shall be transferred to a farm in another State or to a

person for use in another State, (ii) no transfer of an allotment from a farm subject to a mortgage or other lien shall be permitted unless the transfer is agreed to by the lienholder, and (iii) no transfer of allotment shall be effective until a record thereof is filed with the county committee of the county to which such transfer is made and such committee determines that the transfer complies with the provisions of this section. The transfer of an allotment shall have the effect of transferring also the acreage history and marketing quota attributable to such allotment: *Provided*, That in case of a transfer by lease, the amount of the allotment shall be considered for purposes of determining allotments after the expiration of the lease to have been planted on the farm from which such allotment is transferred and the production pursuant to the lease and transfer shall not be taken into account in establishing allotments for years subsequent to the expiration of the lease for the farm to which such allotment is transferred. The Secretary shall prescribe regulations for the administration of this section, which shall include provisions for adjusting the size of the allotment transferred if the farm to which the allotment is transferred has a substantially higher yield per acre, reasonable limits on the size of the resulting allotments on farms to which transfers are made, and such other terms and conditions as he deems necessary. If the sale or lease occurs during a period in which the farm is covered by a conservation reserve contract, cropland conversion agreement, or other similar land utilization agreement, the rates of payment provided for in the contract or agreement of the farm from which the transfer is made shall be subject to an appropriate adjustment, but no adjustment shall be made in the contract or agreement of the farm to which the allotment is transferred.

SEC. 602. Sections 316 and 353(f) of the Agricultural Adjustment Act of 1938, as amended, are hereby repealed.

SUMMARY OF PRINCIPAL PROVISIONS OF PROPOSED BILL

TITLE I—WHEAT

Title I would extend the voluntary wheat marketing certificate program for 2 years—1966 and 1967—with certain changes in the program features.

(1) Wheat marketing quotas would be suspended during the operation of the voluntary program.

(2) Acreage allotments would be continued for purposes of determining eligibility for price support, marketing certificates and diversion payments, but certain changes would be made to simplify the method for determining allotments. Under the new method, State, county, and farm allotments will simply be computed on the basis of the preceding year's allotment.

(3) The marketing certificate program would be similar to that in effect for 1964 and 1965 with the following changes:

(a) The number of certificates received by each farm would be based on the projected farm yield rather than the normal yield.

(b) The bill would authorize the Secretary to provide for distributing the certificates among the producers on the farm on a fair and equitable basis instead of requiring them to be distributed on the basis of the respective shares of the producers in the wheat crop.

(c) The Secretary would be authorized to adjust the amount of certificates issued with respect to any farm for failure of a producer to comply fully.

(d) "Food products" for which marketing certificates are required to be purchased by processors are redefined to mean those products composed wholly or partly of wheat to be used for human consumption, including beverage, as determined by the Secretary.

(e) The Secretary would be authorized to exempt processors from the requirement to purchase certificates for wheat produced by a State and processed for use by the State, wheat processed for donation and wheat processed for other noncommercial uses.

(4) The diversion program for wheat would be extended for 2 years—1966 and 1967—with the following changes:

(a) The limitation of 50 percent of the price-support rate on diversion payments would be removed.

(b) The limitation on the number of acres of additional voluntary diversion would be raised from 20 percent of the farm allotment to 50 percent of the allotment.

(c) The Secretary may permit the diverted acreage to be devoted to guar, sesame, safflower, sunflower, castor beans, mustard seed, soybeans, and flax, if he determines that such production of the commodity is needed, is not likely to increase the cost of the price-support program, and will not adversely affect farm income.

(5) Price support—

(i) for wheat with domestic certificates would be between 65 and 100 percent of parity. Price support for wheat with export certificates would be at such level, not more than parity, as the Secretary determines;

(ii) for noncertificate wheat would be on the basis of competitive world prices of wheat and the feeding value of wheat in relation to feed grains.

(6) Minimum price for sales of wheat from Commodity Credit Corporation stocks would be 105 percent of loan rate, plus reasonable carrying charges, as under the program in effect for 1964 and 1965.

(7) The existing provisions of law permitting substitution of wheat and feed grains would be left in effect.

(8) After 1967, the existing provisions of law for marketing quotas, marketing certificates and price support would again become effective.

Title I of the bill would also amend section 377 of the Agricultural Adjustment Act of 1938, as amended, to preserve the acreage allotment for the farm for any commodity in any case in which the acreage planted to the commodity is less than the allotment.

Title I would also change the marketing quota provisions on rice and wheat to provide that in computing marketing penalties, the excess production on which the penalty will be assessed will be determined on the basis of the projected farm yield instead of the normal yield. "Projected farm yield" is defined as the yield per harvested acre of such crop on the farm during each of the 3 calendar years immediately preceding the year in which such crop is produced, adjusted for abnormal weather conditions affecting such yield, for trends in yields, and for any significant changes in production practices.

TITLE II—FEED GRAINS

Title II would extend the feed grain program for 2 years—1966 and 1967—with certain changes in the program features.

(1) Price support—

(a) If a feed grain diversion program is in effect, producers would be required, as a condition of eligibility for price support, to participate in the diversion program to the extent prescribed by the Secretary.

(i) Existing law, which would remain in effect, provides that if an acreage diversion program is in effect for feed grains, price support for corn shall be at 65 to 90 percent of parity and at comparable levels for grain sorghums, barley, oats, and rye.

(ii) A payment-in-kind, in addition to price support provided through loans and purchases, would be authorized to be made available to producers participating in the acreage diversion program. In determining the amount or amounts of the payment-in-kind, the Secretary would be authorized to take into account the extent of participation by the producer. The payment-in-kind would be made on such part of the feed grain acreage as the Secretary determines desirable to effectuate the purposes of the program. The Secretary could permit producers to have acreage devoted to soybeans considered as devoted to feed grains for purposes of payments-in-kind. The bill would authorize the Secretary to provide for distributing the payment-in-kind certificates on a fair and equitable basis instead of requiring them to be distributed on the basis of the respective shares of the producers in the feed grain crop. The Secretary would be authorized to adjust the payments-in-kind for failure to comply fully with the program.

(b) If an acreage diversion program is not in effect, existing law, which would remain in effect, provides that price support for corn shall be not less than 50 or more than 90 percent of parity as will not result in increasing Commodity Credit Corporation stocks and at comparable levels for grain sorghums, barley, oats, and rye.

(2) The feed grain acreage diversion program would be similar to that in effect for 1964 and 1965 with the following changes:

(a) The limitation on payments of 50 percent of the price support rate would be removed.

(b) The Secretary may permit the diverted acreage to be devoted to the production of guar, soybeans, sesame, safflower, sunflower, castor beans, mustard seed, and flax, if he determines that such production of the commodity is needed, is not likely to increase the cost of the price-support program, and will not adversely affect farm income.

(c) The program would be limited to corn, grain sorghums, and, if designated by the Secretary, barley.

(d) The payment limitation of 20 percent of the fair market value with respect to acreage involved in the program would be removed.

(e) The malting barley exemption would be removed.

(3) The existing provisions of law permitting substitution of wheat and feed grains would be left in effect.

TITLE III—RICE

Title III of the bill would authorize a marketing certificate program for rice for 2 years—1966 and 1967—similar to the marketing certificate program for wheat. Marketing quotas would remain in effect.

(1) The Secretary would proclaim a national acreage allotment equal to the number of acres which the Secretary determines will, on the basis of the projected national yield and expected underplantings of farm acreage allotments, produce an amount of rice which, together with the estimated carryover, would be adequate to make available a supply equal to estimated domestic consumption, exports, and an adequate carryover. The minimum national acreage allotment would be one which would produce not less than 60 million hundredweights of rice instead of the 1,652,596 acres specified under existing law.

(2) Producers would receive a rice marketing allocation on which marketing certificates would be issued equal to the number of hundredweights obtained by multiplying the estimated production on the allotted acres by the percentage estimated by the Secretary to be the percentage of the rice crop which will be used in the United States during the marketing year except for seed. Provision is made for issuing additional certificates to be financed by Commodity Credit Corporation on the first 1,500 hundredweight of each farmer's production. Thus, small producers would receive relatively the highest returns from marketing certificates.

(3) The marketing certificates would have a value per hundredweight equal to the difference between the price support on certificate rice and noncertificate rice.

(4) Marketing certificates would be required to cover all rice processed in the United States and all processed rice imported into the United States, but the value of the certificates would be refunded on all processed rice exported from the United States. The Secretary would be authorized to exempt processors from the requirement to purchase certificates for (i) rice processed for donation, (ii) rice processed for use on the farm where grown, (iii) rice produced by a State or agency thereof and processed for use by the State or agency thereof, and (iv) rice processed for uses determined by the Secretary to be non-commercial.

(5) Commodity Credit Corporation would be authorized to buy and sell marketing certificates.

(6) The Secretary would be authorized to take such action as he determines would be necessary to facilitate the transition from the program currently in effect to the marketing certificate program.

(7) Price support—

(i) for rice with marketing certificates would be between 65 and 100 percent of parity;

(ii) for noncertificate rice would be at such level, not in excess of parity, as the Secretary determines will provide orderly marketing of rice and retain an adequate share of the world market, taking into consideration the price of rice in world markets and other factors.

(8) The minimum price for sales of rice from Commodity Credit Corporation stocks would be 105 percent of loan rate, plus reasonable carrying charges.

(9) After 1967, the existing provisions of law for acreage allotments, marketing quotas, and price support will again become effective.

Title III would also provide authority to reduce the rice acreage allotment for any farm if the farmowner or landlord evicts or otherwise mistreats a rice tenant or sharecropper on the farm.

TITLE IV—WOOL

Title IV would amend the National Wool Act to extend the period during which price support may be made thereunder beyond its present termination date of March 31, 1966, to December 31, 1967. The bill would further amend that act by deleting the presently stated policy of encouraging domestic production of 300 million pounds of shorn wool, and the requirement that the support level be such as will result in a production of 360 million pounds if such support level would not exceed 90 percent of parity, and providing in lieu thereof a new policy of supporting wool at such level as well encourage domestic production of as much of the Nation's requirements of wool as possible at prices fair to both producers and consumers, minimize the adverse effect upon foreign trade, and not result in such an increase in lamb production as will depress lamb prices and reduce the total returns to producers from sheep production. Provision is made for three graduated levels of price support, based upon each producer's marketings during the marketing year. Thus, small producers would receive relatively the highest returns from price support.

TITLE V—CROPLAND ADJUSTMENT

Title V would extend the Soil Bank Act to authorize a long-term cropland adjustment program under which the Secretary would be authorized to enter into long-term agreements with producers to assist them in diverting their cropland to vegetative cover, water storage facilities, or other soil, water, wildlife, or forest conserving uses, or practices or uses for the establishment, protection, and conservation of open spaces, natural beauty, wildlife and recreational resources, and for the prevention of air and water pollution.

The Secretary would be authorized to enter into contracts with producers during the period 1965 through 1970 to be carried out during the period ending not later than December 31, 1979. The period covered by any contract would be not less than 5 years nor more than 10 years.

Grazing would be prohibited except in the case of severe drought, flood, or other natural disaster.

In return for the producer's diverting his cropland to approved uses, the Secretary would share the cost of establishing such uses and make an annual payment to the producer for the period covered by the contract. Authority it would be given to the Secretary to make the annual payments for all years of the contract upon approval of the contract or in installments.

The total acreage placed under contract in any county would be limited to a percentage of the total eligible acreage in such county as the Secretary determines would not adversely affect the economy of the county.

For the purpose of obtaining an increase in the permanent retirement of cropland to noncrop uses, the Secretary would be authorized to transfer funds appropriated for carrying out the program to any other Federal agency or to States or local governmental agencies for use in acquiring cropland for the preservation of open spaces and natural beauty, the development of wildlife and recreational facilities, and the prevention of air and water pollution.

The Secretary would also be authorized to share the cost with State and local governmental agencies in the establishment of practices and uses which will establish, protect, and conserve open spaces, natural beauty, wildlife and recreational resources, and prevent air and water pollution.

Title V would also provide authority under which the Secretary would be authorized to prescribe a uniform rule for the preservation of cropland, crop acreage, and allotment history with respect to acreage which is devoted to vegetative cover and other approved uses.

TITLE VI—TRANSFER OF ALLOTMENTS

Title VI would authorize the Secretary to permit the transfer by sale, lease, or other means of acreage allotments, base acreages, and sugar proportionate shares which have been established under Federal law, including the transfer from one farm owned by a person to another farm owned by him. The Secretary could not authorize the transfer of allotments, base acreages, and propor-

tionate shares unless he determined that the effective operation of the program involved would not be impaired.

No transfer would be permitted outside the State, from a farm subject to a mortgage or other lien unless agreed to by the lienholder, or until a copy of the transfer had been filed with the county committee of the county to which transferred and it was determined by the committee that it complied with the provisions of the statute.

The transfer of an allotment, base acreage, or proportionate share also would include the acreage history and marketing quota attributable thereto.

The Secretary would be required to prescribe regulations governing transfers including provisions for adjusting the size of the allotment transferred if the farm to which the allotment is transferred has a substantially higher yield, and for putting reasonable limits on the size of the resulting allotments.

If the farm from which the transfer was made was covered by a conservation reserve contract, cropland conversion agreement, or other similar land utilization agreement, the rates of payment in the contract or agreement would be appropriately adjusted, but no similar adjustment would be made for the farm to which the transfer is made.

Provisions of existing law authorizing leases of tobacco allotments and transfer of producer rice allotments would be repealed.

SECTION-BY-SECTION EXPLANATION OF PROPOSED BILL

TITLE I—WHEAT

Section 101. This section contains 12 amendments to the Agricultural Adjustment Act of 1938, as amended.

Amendment (1) would amend section 332 to change one of the items making up the amount of the national marketing quota from the average amount of wheat which was used for livestock feed during 1959–60 to the amount of wheat which it is estimated will be used for livestock feed during the marketing year for which the quota is being determined, excluding the estimated amount of wheat used for such purposes as a result of wheat grown in lieu of feed grains under the substitution provision.

Amendment (1) would also suspend the proclamation of quotas on wheat for the 1966 and 1967 crops.

Amendment (2) would make the following changes in the provisions for computing the national acreage allotment:

The national acreage allotment would be determined on the basis of the projected national yield instead of expected yields as under existing law.

The acreage necessary to provide the increases in small farm allotments pursuant to section 335 would be added in the national acreage allotment rather than be established outside the national acreage allotment.

This is a technical change to make this provision conform to the changes made by amendments (3) through (8) for computing allotments. The Secretary would be given discretionary authority under this amendment to adjust the national acreage allotment as necessary to assure adequate but not excessive stocks.

Amendments (3) through (8) would provide for the determination of State, county, and farm allotments on the basis of the preceding year's allotment. This would preserve the increases given to farms with small allotments in 1964 and 1965 pursuant to section 335. In the future, such small farm allotments would be treated the same as other allotments. The so-called Anfuso amendment under which farmers who overplant their allotments lose history would not apply in any year in which there was a voluntary diversion or certificate program.

Amendment (9) would extend the diversion program for wheat for 2 years—1966 and 1967—with some changes. The limitation of 50 percent of the price-support rate on diversion payments would be removed. The limitation on the number of acres of additional voluntary diversion would be raised from 20 percent of the farm allotment to 50 percent of the allotment. (The existing provisions of law permitting substitution of wheat and feed grains would be left in effect.)

Amendment (10) would authorize the Secretary to permit the diverted acreage to be devoted to guar, sesame, safflower, sunflower, castor beans, mustard seed, soybeans, and flax, if he determines that such production of the commodity is

needed, is not likely to increase the cost of the price-support program, and will not adversely affect farm income.

Amendment (11) would amend section 377 of the Agricultural Adjustment Act of 1938, as amended, relating to preservation of unused acreage allotments, to provide that in any case in which the acreage planted to a commodity on a farm is less than the acreage allotment for the farm, the entire acreage allotment shall be considered as planted to such commodity for such year for the purpose of establishing future State, county, and farm acreage allotments.

Amendment (12) would authorize the Secretary to issue wheat marketing certificates to producers, with adjustments in the amount therefor, for performance rendered even though the producer failed to comply fully with the requirements of the program.

Section 102. This section would extend the wheat marketing certificate program for 2 years—1966 and 1967. The number of certificates received by each farm would be based on the projected farm yield rather than the normal yield.

Section 103. This section would amend the provisions applicable to the 1968 and subsequent crops to provide that the number of certificates received by each farm shall be based on the projected farm yield rather than the normal yield.

Section 104. This section would extend to other specified situations the authority of the Secretary to exempt wheat from the requirement that processors and exporters purchase wheat marketing certificates. This section also would redefine "food products" for which marketing certificates are required to mean those products composed wholly or partly of wheat to be used for human consumption, including beverage, as determined by the Secretary.

Section 105. Amendment (1) would extend to the 1966 and 1967 crops the provision in the present program which eliminates the land use penalty.

Amendment (2) would extend to the 1966 and 1967 crops the authority in the present program which authorizes producers who exceed their wheat allotments to store their excess wheat in accordance with regulations issued by the Secretary and be eligible for wheat marketing certificates.

Amendment (3) would extend to the 1966 and 1967 crops the provision in the present program which provides that minimum price for sales of wheat from Commodity Credit Corporation stocks would be 105 percent of loan rate, plus reasonable carrying charges.

Section 106. This section would provide that price support for wheat with domestic certificates would be between 65 and 100 percent of parity. Price support for wheat with export certificates would be at such level, not more than parity, as the Secretary determines, and for noncertificate wheat would be on the basis of competitive world prices of wheat and the feeding value of wheat in relation to feed grains.

Section 107. This section is a technical amendment to section 339(a) to make it conform to the amendments to the acreage allotment provisions in section 101.

Section 108. This section would authorize the Secretary to provide for distributing the certificates among the producers on the farm on a fair and equitable basis instead of requiring them to be distributed on the basis of the respective shares of the producers in the wheat crop. This would permit taking into account the respective contributions of each producer on the farm in reducing wheat. This section also would provide that an acreage on the farm not planted to wheat because of drought, flood, or other natural disaster would be deemed to be an actual acreage of wheat planted for harvest for purposes of computing the amount of wheat marketing certificates for the farm.

Section 109. This section contains two amendments to section 301(b) of the Agricultural Adjustment Act of 1938, as amended.

Amendment (1) would amend paragraph (8) to add a new subparagraph (B) defining the term "projected national yield" as applied to any crop of rice or wheat. The projected national yield would be determined on the basis of the national average yield of the commodity for the preceding 5 years, adjusted for abnormal weather conditions, for trends in yields, and for any significant changes in production practices. It would permit the determination of the national acreage allotment for wheat or rice on the basis of a national yield more nearly equal to the national yield which could be expected in the year for which the allotment is determined.

Amendment (2) would add subparagraphs (J) and (K) to paragraph (13). These would define "projected county yield" and "projected farm yield" for any crop of rice or wheat. The projected county yield would be determined

on the basis of the yield per harvested acre for each of the immediately preceding 5 years, adjusted for abnormal weather conditions, trends in yields, and any significant changes in production practices. The projected farm yield would be determined on the basis of the yield per harvested acre for each of the immediately preceding 3 years, adjusted for the same factors as for the projected county yield. The use of these projected yields would permit the determination of farm yields of rice and wheat more nearly equal to those expected in the year for which they would be used.

Section 110. This section would amend the provisions of section 379c(b) relating to the storage of excess wheat to provide that, in computing the amount of wheat required to be stored, the projected farm yield shall be used in lieu of the normal yield. This section also would amend section 379i of the Agricultural Adjustment Act of 1938, as amended, relating to penalties for violations of the wheat marketing certificate program, to make it clear that the penalties are applicable only for violations committed knowingly.

Section 111. This section contains two amendments. Amendment (a) would redefine "normal production" as applied to wheat or rice contained in paragraph (9) of section 301(b) of the Agricultural Adjustment Act of 1938, as amended, so that, beginning in 1966, the projected farm yield would be used instead of the farm normal yield in the determination of the farm marketing quota and farm marketing excess.

Amendment (b) would amend paragraph (1) of Public Law 74, 77th Congress, relating to wheat marketing quotas, so that the projected farm yield would be used instead of farm normal yield in the determination of the farm marketing quota and farm marketing excess.

TITLE II—FEED GRAINS

Section 201. This section provides that if a feed grain diversion program is in effect, producers would be required, as a condition of eligibility for price support, to participate in the diversion program to the extent prescribed by the Secretary. Existing law, which would remain in effect, provides that if an acreage diversion program is in effect for feed grains, price support for corn shall be at 65 to 90 percent of parity and at comparable levels for grain sorghums, barely, oats, and rye. A payment-in-kind, in addition to price support provided through loans and purchases, would be authorized to be made available to producers participating in the acreage diversion program. In determining the amount or amounts of the payment-in-kind, the Secretary would be authorized to take into account the extent of participation by the producer. The payment-in-kind would be made on such part of the feed grain acreage as the Secretary determines desirable to effectuate the purposes of the program. The Secretary could permit producers participating in the diversion program to grow soybeans in lieu of feed grains and still receive the feed grain payments-in-kind. The Secretary would be authorized to provide for distributing the payment-in-kind certificates on a fair and equitable basis instead of requiring them to be distributed on the basis of the respective shares of the producers in the feed grain crop. This would permit taking into account the respective contributions of each producer on the farm in reducing feed grain. The Secretary would be authorized to make payments-in-kind, with adjustments in the amount thereof, even though there is a failure to comply fully with the program. If an acreage diversion program is not in effect, existing law provides that price support for corn shall be not less than 50 or more than 90 percent of parity as will not result in increasing Commodity Credit Corporation stocks and at comparable levels for grain sorghums, barley, oats, and rye.

Section 202. This section provides for a feed grain acreage diversion program which would be similar to that in effect for 1964 and 1965 with some changes. The limitation on payments of 50 percent of the price-support rate would be removed. The Secretary could permit the diverted acreage to be devoted to the production of guar, soybeans, sesame, safflower, sunflower, castor beans, mustard seed, and flax, if he determined that such production of the commodity is needed, is not likely to increase the cost of the price-support program, and will not adversely affect farm income. The program would be limited to corn, grain sorghums, and, if designated by the Secretary, barley. The payment limitation of 20 percent of the fair market value with respect to acreage involved in the program would be removed. The malting barley exemption would be removed. The existing provisions of law permitting substitution of wheat and feed grains would be left in effect.

Section 203. This section would amend section 326 of the Food and Agriculture Act of 1962, which gave the Secretary authority to pay for performance rendered in reliance on erroneous advice of authorized representatives, to make it applicable to any program under which price support is extended or payments are made to farmers.

TITLE III—RICE

Section 301. This section of the bill authorizes a marketing certificate program for rice for 2 years—1966 and 1967—similar to the marketing certificate program for wheat. The program would be in effect if marketing quotas are in effect for rice. Producers would receive a marketing allocation on which marketing certificates would be issued equal to the number of hundredweights obtained by multiplying the estimated production on the allotted acres by the national allocation percentage which is the percentage of the rice crop estimated by the Secretary that will be used in the United States during the marketing year except for seed.

Provision is made for issuing additional certificates, to be financed by Commodity Credit Corporation, on the first 1,500 hundredweight of each farmer's production. The first 500 hundredweights or less estimated to be produced on the allocated acres would receive certificates based on not less than the national allocation percentage or more than an allocation percentage of 55 percent; the next 1,000 hundredweights of production would receive certificates based on not less than the national allocation percentage or more than an allocation percentage of 45 percent; and production in excess of 1,500 hundredweights would receive certificates based on the national allocation percentage.

The rice marketing certificates issued with respect to any farm for any year could not exceed the actual acreage of rice planted for harvest multiplied by the projected yield of rice for the farm. The rice marketing certificates issued to any producer in any State or area where producer allotments are established could not exceed the actual acreage of rice planted by the producer in such State or area multiplied by the producer's projected yield. Producers would not be eligible to receive certificates with respect to any farm on which a marketing quota penalty is assessed for any commodity on the farm.

Marketing certificates would have a value per hundredweight equal to the difference between the price support on certificate rice and noncertificate rice.

Marketing certificates would be required to cover all rice processed in the United States and all processed rice imported into the United States. The value of the certificates would be refunded on all processed rice exported from the United States. The Secretary would be authorized to exempt processors from the requirement to purchase certificates for (i) rice processed for donation, (ii) rice processed for use on the farm where grown, (iii) rice produced by a State or agency thereof, and (iv) rice processed for uses determined by the Secretary to be noncommercial. Commodity Credit Corporation would be authorized to buy and sell marketing certificates.

The Secretary would be authorized to take such action as he determines would be necessary to facilitate the transition from the programs currently in effect to the marketing certificate program.

The bill authorizes the Secretary to require processors, exporters, importers, and warehousemen of rice and persons dealing in certificates to make reports and keep appropriate records. The Secretary is also authorized to prescribe such regulations as are necessary to carry out the provisions of the program.

Section 302. This section of the bill provides the same civil forfeitures and penalties for violations of the programs as are provided with respect to the marketing certificate program for wheat.

Section 303. This section of the bill provides levels of price support for the 1966 and 1967 crops of rice. If a rice marketing allocation program is in effect, price support for rice with marketing certificates would be between 65 and 100 percent of parity, and price support for noncertificate rice would be at such level not in excess of parity as the Secretary determines will provide orderly marketing of rice and retain an adequate share of the world market, taking into consideration the price of rice in world markets and the other factors specified in section 401(b) of the price-support statute. Price support would be made available only to cooperators. If marketing quotas are not in effect, price support for rice would be as provided in section 101 of the Agricultural Act of 1949.

The minimum price for sales of rice from Commodity Credit Corporation stocks would be 105 percent of the loan rate, plus reasonable carrying charges.

Section 304. This section would amend section 352 of the Agricultural Adjustment Act of 1938 so as to change the manner of computing national acreage allotment. The existing law is changed in the following respects:

The national acreage allotment would be computed on the basis of the projected national yield instead of the national average yield.

The minimum national acreage allotment would be the acreage required to produce 60 million hundredweights instead of being fixed at 1,652,596 acres.

The amount to be allowed for carryover would be "an adequate carryover" instead of 10 percent of the estimated domestic consumption and exports.

Section 305. This section would repeal paragraph (6) of section 353(c) of the Agricultural Adjustment Act of 1938. Paragraph (6) provides that the national acreage allotment shall not be less than the acreage allotted for 1956, and that the national acreage allotment shall be apportioned among the States in the same proportion that they shared in the total acreage allotted in 1956.

Section 306. This section would add a new subsection (g) to section 353 of the Agricultural Adjustment Act of 1938 to protect tenants and sharecroppers from eviction or other mistreatment by their landlords. In event of such eviction or mistreatment by a landlord, the Secretary could, beginning with the 1965 crop, reduce the farm acreage allotment of the landlord.

TITLE IV—WOOL

Section 401. This section would amend the National Wool Act to extend the period during which price support may be made thereunder beyond its present termination date of March 31, 1966, to December 31, 1967. The bill would further amend that act by deleting the presently stated policy of encouraging domestic production of 300 million pounds of shorn wool, and the requirement that the support level be such as will result in a production of 360 million pounds if such support level would not exceed 90 percent of parity, and providing in lieu thereof a new policy of supporting wool at such level as will encourage domestic production of as much of the Nation's requirements of wool as possible at prices fair to both producers and consumers, minimize the adverse effect upon foreign trade, and not result in such an increase in lamb production as will depress lamb prices and reduce the total returns to producers from sheep production. Provision is made for three graduated levels of price support on wool based upon each producer's marketings during the marketing year. The first 2,000 pounds would be supported at not less than 75 or more than 90 percent of parity, the next 5,000 at not less than 70 or more than 85 percent of parity, and any excess over 7,000 pounds would be supported at not less than 65 or more than 80 percent of parity. The price for mohair would be supported at such levels as the Secretary determines are necessary to maintain approximately the same levels of support for mohair as for wool. Mohair support prices would not deviate more than 15 percent above or below the percentage of the parity price at which wool is supported.

TITLE V—CROPLAND ADJUSTMENT

Title V would extend the Soil Bank Act, with certain amendments, to authorize a long-term cropland adjustment program.

Section 501. In connection with the extension of the Soil Bank Act, this section would amend section 107 (1) to provide that the minimum contract period with producers shall be 5 years instead of 3; (2) to authorize additional practices or uses for the establishment, protection, and conservation of open spaces, natural beauty, recreational resources, and for the prevention of air and water pollution; (3) to prohibit grazing of acreage placed in the program except in the case of severe drought, flood, or other natural disaster; (4) to authorize only such forfeitures and refunds as the Secretary determines appropriate in the case of violations warranting termination of the contract (the present law requires forfeiture and refund of all payments under the contract); (5) to make it clear that the amount of cost sharing for establishing vegetative cover or other uses can be based on the average cost of establishing such practice in the county or area; (6) to authorize the Secretary to make payments in a lump sum upon approval of the contract or in such installments as he determines desirable (the present law provides only for annual payments); (7) to clarify the authority of the Secretary to prescribe by regulation violations which are of such a nature as to defeat or substantially impair the purposes of the contract; and (8) to provide that the total acreage placed under contract in any county would be

limited to a percentage of the total eligible acreage in such county as the Secretary determines would not adversely affect the economy of the county.

Section 502. This section would authorize the Secretary to enter into contracts with producers during the period 1965 through 1970 to be carried out during the period ending not later than December 31, 1979. The period covered by any contract would be not less than 5 years or more than 10 years. The calendar year limitation of \$450 million would be deleted to provide that contracts shall not be entered into which would require payments in any calendar year in excess of amounts specified in appropriation acts.

Section 503. This section would (1) authorize the furnishing of conservation materials and services for the additional practices and uses which would be authorized under the act; and (2) provide the Secretary with discretionary authority in requiring compliance with acreage allotments as a condition of eligibility for payments under the program.

Section 504. Under this section, the Secretary would be authorized (1) for the purpose of obtaining an increase in the permanent retirement of cropland to noncrop uses, to transfer funds appropriated for carrying out the program to any other Federal agency or to States or local governmental agencies for use in acquiring cropland for the preservation of open spaces and natural beauty, the development of wildlife and recreational facilities, and the prevention of air and water pollution; and (2) to share the cost with State and local governmental agencies in the establishment of practices and uses which will establish, protect, and conserve open spaces, natural beauty, wildlife and recreational resources, and prevent air and water pollution.

Section 505. This section would repeal section 123 of the Soil Bank Act which provides that any producer who knowingly and willfully grazes or harvests any crop from any acreage in violation of a contract shall be subject to a civil penalty equal to 50 percent of the compensation payable for compliance with such contract for the year in which the violation occurs.

Section 506. This section would provide authority for the Secretary to prescribe a uniform rule for the preservation of cropland, crop acreage, and allotment history with respect to acreage which is devoted to vegetative cover and other approved uses. The present provisions for preservation of history under the Soil Bank Act and the Soil Conservation and Domestic Allotment Act (Great Plains and cropland conversion programs) would be repealed, except that all rights accruing thereunder to producers with existing contracts would be preserved.

TITLE VI—TRANSFER OF ALLOTMENTS

Section 601. This section would authorize the sale or lease of acreage allotments, base acreages, acreage-poundage quotas, and sugar proportionate shares (hereinafter referred to as "allotment") whether determined on a farm or producer basis. The owner of a farm could transfer all or part of the allotment for the farm to another farm owned by him. As a prerequisite to authorization for transfer, the Secretary would have to determine that the effective operation of the program would not be impaired. No transfer would be permitted outside the State, from a farm subject to a mortgage or other lien unless agreed to by the lienholder, or until a copy of the transfer had been filed in the county ASCS office of the county to which transferred. The transfer of an allotment, base acreage, or proportionate share would include the acreage history and marketing quota attributable thereto. In the case of a transfer by lease, the allotment leased would, for purposes of determining allotments after expiration of the lease, be considered to have been planted on the farm from which leased. The Secretary could prescribe regulations for adjusting the size of the allotment transferred if the farm to which transferred had a substantially higher yield. He could also place reasonable limits on the size of resulting allotments on farms to which transfers were made. If the farm from which the transfer was made was covered by a conservation reserve contract, cropland conversion agreement, or other land utilization agreement, the rates of payment in the contract or agreement would be proportionately adjusted, but no similar adjustment would be made for the farm to which transferred.

Section 602. This section would repeal existing provisions of law authorizing leases of tobacco allotments and transfers of producer rice allotments.

[S. 1794, 89th Cong., 1st sess.]

A BILL To amend the National School Lunch Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 9 of the National School Lunch Act (42 U.S.C. 1758) be amended by adding at the end thereof the following:

"Milk and dairy products acquired by the Commodity Credit Corporation through price support operations shall, insofar as they can be used in the school lunch program, be donated under this Act without regard to limitation or priorities in other provisions of the law."

[S. 1838, 89th Cong., 1st sess.]

A BILL To make dairy products available for domestic and foreign programs

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of Agriculture is hereby authorized and directed to use funds of the Commodity Credit Corporation to purchase sufficient supplies of dairy products at market prices to meet the requirements of any programs for the schools, domestic relief distribution, community action, foreign distribution, and such other programs as are authorized by law, when there are insufficient stocks of dairy products in the hands of Commodity Credit Corporation available for these purposes.

[S. 2025, 89th Cong., 1st sess.]

A BILL To provide for a voluntary wheat certificate program, under which the price of all wheat would be supported at not less than \$2.00 per bushel

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

REPEAL OF PROVISIONS RELATING TO WHEAT MARKETING QUOTAS—EXTENSION OF PROVISION FOR MINIMUM NATIONAL ACREAGE ALLOTMENT OF FORTY-NINE MILLION FIVE HUNDRED THOUSAND ACRES

SECTION 1. (a) Sections 332 and 333 of the Agricultural Adjustment Act of 1938, as amended by sections 311 and 312 of Public Law 87-703, are amended to read as follows:

"PRODUCTION OBJECTIVE

"SEC. 332. (a) The production objective for wheat for any marketing year shall be an amount of wheat which the Secretary estimates (i) will be utilized during such marketing year for human consumption in the United States as food, food products, and beverages, composed wholly or partly of wheat, (ii) will be utilized during such marketing year in the United States for seed, (iii) will be exported either in the form of wheat or products thereof, and (iv) as the average amount which was utilized as livestock (including poultry) feed in the marketing years beginning in 1959 and 1960; less (A) an amount of wheat equal to the estimated imports of wheat into the United States during such marketing year and, (B) if the stocks of wheat owned by the Commodity Credit Corporation are determined by the Secretary to be excessive, an amount of wheat determined by the Secretary to be a desirable reduction in such marketing year in such stocks to achieve the policy of the Act: *Provided*, That if the Secretary determines that the total stocks of wheat in the Nation are insufficient to assure an adequate carryover for the next succeeding marketing year, the production objective otherwise determined shall be increased by the amount the Secretary determines to be necessary to assure an adequate carryover: *And provided further*, That the production objective for wheat for any marketing year shall be not less than the larger of (i) one billion bushels, or (ii) such number of bushels as will require proclamation of a national acreage allotment of forty-nine million five hundred thousand acres.

"(b) If, after the proclamation of the national acreage allotment for any crop of wheat, the Secretary has reason to believe that, because of a national emergency or because of a material increase in the demand for wheat, the production

objective should be increased, he shall cause an immediate investigation to be made to determine whether such action is necessary in order to meet such emergency or increase in the demand for wheat. If, on the basis of such investigation, the Secretary finds that such action is necessary, he shall immediately proclaim such finding and the amount of any such increase found by him to be necessary and thereupon such production objective shall be so increased. In case any production objective is increased under this subsection, the Secretary shall provide for such increase by increasing acreage allotments established under this part by a uniform percentage.

"NATIONAL ACREAGE ALLOTMENT"

"SEC. 333. Not later than April 15 of each calendar year the Secretary shall ascertain and proclaim the national acreage allotment for the crop of wheat produced in the next succeeding calendar year. The amount of the national acreage allotment for any crop of wheat shall be the number of acres which the Secretary determines on the basis of expected yields and expected underplantings of farm acreage allotments will, together with the expected production on the increases in acreage allotments for farms based upon small-farm base acreages pursuant to section 335, make available a supply of wheat equal to the production objective for wheat for such marketing year."

(b) Public Law 74, Seventy-seventh Congress, is repealed, and the Agricultural Adjustment Act of 1938, as amended, is amended by striking out the following provisions relating to wheat marketing quotas: (1) the sentence in section 334(i) relating to paragraph (6) of Public Law 74, Seventy-seventh Congress; (2) the words "and marketing quotas for the marketing year therefor" in the second sentence of section 334a; (3) the first and next to last sentences of section 335; (4) sections 336 and 338; and (5) "wheat," in section 372(a).

(c) The following headings contained in the Agricultural Adjustment Act of 1938, as amended, are amended as follows:

(1) The heading of subtitle B of title III is amended to read "SUBTITLE B—MARKETING QUOTAS AND ACREAGE ALLOTMENTS".

(2) The heading of part III of subtitle B of title III is amended to read "PART III—ACREAGE ALLOTMENTS—WHEAT".

(3) The heading of section 335 is amended to read "MINIMUM ALLOTMENT".

REPEAL OF ACREAGE PENALTIES FOR OVERPLANTING OR UNDERPLANTING ALLOTMENTS

SEC. 2. (a) The second proviso of section 334(a) of the Agricultural Adjustment Act of 1938, as amended, is amended by inserting "and any subsequent year" after "1965".

(b) The second proviso of section 334(b) of such Act is amended by inserting "and any subsequent year" after "1965".

(c) So much of the third sentence of section 334(c)(1) of such Act as precedes " : *Provided*" is amended to read as follows: "For the purpose of establishing farm acreage allotments—(i) the past acreage of wheat on any farm for 1958 or any year subsequent to 1964 shall be the base acreage determined for the farm under the regulations issued by the Secretary for determining farm wheat acreage allotments for such year; (ii) if subsequent to the determination of such base acreage the wheat acreage allotment for the farm for 1958 or any year subsequent to 1964 is increased through administrative, review, or court proceedings, the farm base acreage for such year shall be increased in the same proportion; and (iii) the past acreage of wheat for 1959 and any subsequent year prior to 1965 shall be the wheat acreage on the farm which is not in excess of the farm wheat acreage allotment, plus, in the case of any farm which is in compliance with its farm wheat acreage allotment, the acreage diverted under such wheat allotment program".

(d) The first sentence of section 334(g) of such Act is amended by striking out "1958 or thereafter except 1965" and inserting "the years 1958 through 1964".

MILLION-ACRE SPECIAL ACREAGE RESERVE

SEC. 3. Section 334(a) of the Agricultural Adjustment Act of 1938, as amended, is amended by striking out the last five sentences thereof and inserting the following: "There shall also be made available for the 1966 crop, in addition to the national acreage reserve provided for in this subsection, a special acreage reserve of one million acres, to be used to increase allotments on old wheat farms

in cases where such allotments are too small relative to cropland to permit efficient farming operations. Such special acreage reserve shall be apportioned to counties where wheat is a major income-producing crop on the basis of the relative needs, as determined by the Secretary, within such counties for such increases. The acreage apportioned to each county hereunder shall be apportioned to old wheat farms on which there is limited opportunity for the production of an alternative income-producing crop on the basis of their needs for additional wheat acreage to make efficient farming operations possible, the ratio of wheat acreage allotment to cropland on the farm compared to that for efficient wheat farms in the area, and such other factors as the Secretary may deem appropriate. For the purposes of making adjustments hereunder "old wheat farms" shall mean farms on which wheat has been seeded or regarded as seeded to one or more of the 1963, 1964, and 1965 crops. For the purpose of establishing State, county, and farm acreage allotments for the 1967 and subsequent crops, the past acreage of wheat deemed to have been planted and diverted in each of the years preceding 1966 on each farm receiving additional acreage from the special acreage reserve for the 1966 crop, shall be increased in the same proportion that the 1966 acreage allotment for such farm is increased through allotment from the special acreage reserve. Similar equitable adjustments in State, county, and farm acreage history shall be made with respect to old wheat farms which, because of their crop rotation systems, did not receive the full benefit of the adjustment provided herein for the 1966 crop. Apportionments from the special acreage reserve, and the adjustments in acreage history provided for by the two preceding sentences, shall be made with respect to any farm only upon application therefor by the owner or operator of such farm in the manner and within the time prescribed by the Secretary."

WHEAT PRICE SUPPORT THROUGH LOANS, DIRECT PAYMENTS WITHOUT MARKETING
CERTIFICATES, AND OTHER OPERATIONS

SEC. 4 (a) Section 107 of the Agricultural Act of 1949, as amended (7 U.S.C. 1445a), is amended to read as follows:

"SEC. 107. Notwithstanding the provisions of section 101 of this Act, beginning with the 1966 crop—

"(1) price support for wheat shall be made available through loans, purchases, and other operations (not including payments) at a level equal to the higher of (i) the United States farm price equivalent, as determined by the Secretary, of the average world market price for wheat during the immediately preceding three marketing years, or (ii) 50 per centum of the parity price therefor,

"(2) additional price support for wheat shall be made available through payments in such amount as will bring the total amount of price support made available under this section up to a level not in excess of 100 per centum of the parity price for wheat and not less than \$2.00 per bushel. Such additional support shall be provided on the normal production of the acreage planted for harvest within the farm acreage allotment or, in the noncommercial area, on such other basis as the Secretary shall determine to be equitable; and shall be shared by the producers on the farm on the basis of their respective shares in the wheat crop produced on the farm, or the proceeds therefrom,

"(3) price support shall be made available only to cooperators; and if a commercial wheat-producing area is established for such crop, price support shall be made available under paragraph (1) only in the commercial wheat-producing area, and

"(4) a 'cooperator' with respect to any crop of wheat produced on a farm shall be a producer who (i) does not knowingly exceed (A) the farm acreage allotment for wheat or any other commodity on the farm or (B) except as the Secretary may by regulation prescribe, the farm acreage allotment on any other farm for any commodity in which he has an interest as a producer, and (ii) complies with the land-use requirements of section 339 of the Agricultural Adjustment Act of 1938, as amended, to the extent prescribed by the Secretary. For purposes of this section, a producer shall be deemed not to have exceeded the farm acreage allotment for wheat if the acreage in excess of the farm acreage allotment does not exceed 50 per centum of the farm acreage allotment and the amount of wheat produced on the acreage in excess of the farm acreage allotment is stored in accordance with regulations issued

by the Secretary. The amount of wheat required to be stored hereunder shall be an amount equal to twice the normal yield of wheat per acre established for the farm multiplied by the number of acres of such crop of wheat on the farm in excess of the farm acreage allotment for such crop unless the producer, in accordance with regulations prescribed by the Secretary and within the time prescribed therein, establishes to the satisfaction of the Secretary the actual production of such crop of wheat on the farm. If such actual production is so established, the amount of wheat required to be stored shall be such actual production less the actual production of the farm wheat acreage allotment based upon the average yield per acre for the entire wheat acreage on the farm: *Provided however*, That the amount of wheat required to be stored shall not be larger than the amount by which the actual production so established exceeds the normal production of the farm wheat acreage allotment. At the time and to the extent of any depletion in the amount of wheat so stored, except depletion resulting from the release of wheat from storage on account of underplanting or underproduction, as provided below or depletion resulting from some cause beyond the control of the producer, the producer shall pay an amount to the Secretary equal to one and one-half times the wheat price support payments made with respect to the farm for the year in which the wheat on the acreage in excess of the allotment was produced. Whenever the planted acreage of the then current crop of wheat on the farm is less than the farm acreage allotment, the total amount of wheat from any previous crops stored hereunder shall be reduced by that amount which is equal to the normal production of the number of acres by which the farm acreage allotment exceeds the planted acreage, and whenever the actual production of the acreage of wheat is less than the normal production of the farm acreage allotment, the total amount of wheat from any previous crops stored hereunder shall be reduced by that amount which together with the actual production of the then current crop will equal the normal production of the farm acreage allotment. The producer shall not be eligible to receive price support on the wheat so stored."

(b) Section 379b of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

"SEC. 379b. Beginning with the marketing year for the 1966 crop, a wheat marketing allocation program shall be in effect as provided in this subtitle."

(c) Sections 379c and 379i(c) of the Agricultural Adjustment Act of 1938, as amended, are hereby repealed.

PROCESSORS REQUIRED TO ACQUIRE MARKETING CERTIFICATES UNLESS SUCH REQUIREMENT IS SUSPENDED—CERTIFICATES NOT REQUIRED ON EXPORTS

SEC. 5. (a) Section 379d(b) of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

"(b) All persons engaged in the processing of wheat into food products shall, prior to marketing any such food product or removing such food product for sale or consumption, acquire marketing certificates equivalent to the number of bushels of wheat contained in such product. Upon the exportation from the United States of any such food product, the Commodity Credit Corporation shall refund to the exporter the value of marketing certificates equivalent to the number of bushels of wheat contained in such product. Marketing certificates shall be valid to cover only sales or removals for sale or consumption made during the marketing year with respect to which they are issued, and after being once used to cover a sale or removal for sale or consumption shall be void and shall be disposed of in accordance with regulations prescribed by the Secretary. Notwithstanding the foregoing provisions hereof, the Secretary may require marketing certificates issued for any marketing year to be acquired to cover sales or removals made on or after the date during the calendar year in which wheat harvested in such calendar year begins to be marketed as determined by the Secretary even though such wheat is marketed prior to the beginning of the marketing year, and marketing certificates for such marketing year shall be valid to cover sales or removals made on or after the date so determined by the Secretary. The requirements of this subsection may be suspended for any marketing year or other period by the President in whole or to such extent as he deems appropriate, if he determines that such suspension will result in the more effective regulation of commerce and the better effectuation of the purposes of this Act.

(b) Section 379d(c) of such Act is amended by striking out "or export".

(c) Section 379e of such Act is amended to read as follows:

"SEC. 379e. The Commodity Credit Corporation is authorized to issue, buy, and sell marketing certificates at their face value. The face value per bushel of marketing certificates for each marketing year shall be the amount by which the support level determined under section 107(1) of the Agricultural Act of 1949 for such marketing year is below 100 per centum of the parity price of wheat as of the date such support level is determined."

REPEAL OF MONETARY PENALTIES FOR PRODUCTION ON DIVERTED ACRES

SEC. 6. Section 339(a)(1) of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

"(a)(1) The producers on any farm (except a new farm receiving an allotment from the reserve for new farms) on which any crop is produced on acreage required to be diverted from the production of wheat shall, except to the extent otherwise prescribed by the Secretary, be ineligible to receive price support on wheat unless the crop is designated by the Secretary as one which is not in surplus supply and will not be in surplus supply if it is permitted to be grown on the diverted acreage, or as one the production of which will not substantially impair the purpose of the requirements of this section. The acreage required to be diverted from the production of wheat on the farm shall be an acreage of cropland equal to the number of acres determined by multiplying the farm acreage allotment by the diversion factor determined by dividing the number of acres by which the national acreage allotment is reduced below fifty-five million acres by the number of acres in the national acreage allotment."

DIVERSION PAYMENT PROGRAM REQUIRED FOR 1966 AND SUBSEQUENT CROPS

SEC. 7. Section 339(b) of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

"(b) The Secretary may formulate and carry out a program with respect to the 1966 and subsequent crops of wheat under which, subject to such terms and conditions as he determines are desirable to effectuate the purposes of this section—

"(1) the producers on any farm may divert from the production of wheat an acreage, in addition to the acreage diverted pursuant to subsection (a), equal to 20 per centum of the farm acreage allotment for wheat: *Provided*, That the producers on any farm may, at their election, divert such acreage in addition to the acreage diverted pursuant to subsection (a), as will bring the total acreage diverted on the farm to fifteen acres; and

"(2) payments shall be made in amounts equal to 50 per centum of the estimated basic county support rate for wheat under section 107(1) of the Agricultural Act of 1949 on the normal production of the additional acreage diverted pursuant to this subsection.

Such program shall require (1) that the acreage diverted under this subsection shall be devoted to conservation uses approved by the Secretary; (2) that such diverted acreage shall be devoted to conservation uses approved by the Secretary; (3) that the total acreage of cropland on the farm devoted to soil-conserving uses, including summer fallow and idle land but excluding the acreage diverted as provided in this subsection, shall be not less than the total average acreage of cropland devoted to soil-conserving uses including summer fallow and idle land on the farm during a representative period, as determined by the Secretary, adjusted to the extent the Secretary determines appropriate for (i) abnormal weather conditions or other factors affecting production, (ii) established crop rotation practices on the farm, (iii) participation in other Federal farm programs, (iv) unusually high percentage of land on the farm devoted to conserving uses, and (v) other factors which the Secretary determines should be considered for the purpose of establishing a fair and equitable soil-conserving acreage for the farm; and (4) that the producer shall not knowingly exceed (i) any farm acreage allotment in effect for any commodity produced on the farm, and (ii) except as the Secretary may by regulations prescribe, with the farm acreage allotments on any other farm for any crop in which the producer has a share: *Provided*, That no producer shall be deemed to have exceeded a farm acreage allotment for wheat on any other farm if the production on the acreage in excess of the farm acreage allotment is stored pursuant to the provisions of section 107(4) of the Agricultural Act of 1949. The producers on a

new farm shall not be eligible for payments hereunder. The Secretary shall provide for the sharing of payment among producers on the farm on a fair and equitable basis. Payments may be made in cash or in wheat."

MINIMUM COMMODITY CREDIT CORPORATION SALES PRICE

SEC. 8. The proviso in the third sentence of section 407 of the Agricultural Act of 1949, as amended, which deals with wheat, is amended to read as follows: "*Provided further*, That beginning July 1, 1966, the Corporation shall not sell any wheat at less than 15 per centum above the current support price for wheat provided by section 107(1) of the Agricultural Act of 1949, plus reasonable carrying charges."

EFFECTIVE DATE

SEC. 9. This Act shall be effective beginning with the 1966 crop of wheat, except that section 7 shall be effective beginning July 1, 1966, with respect to all wheat. Subject to adjustment as provided by law, if marketing quotas or acreage allotments have been proclaimed for the marketing year beginning in 1966 or for the 1966 crop, the production objective for such marketing year shall be in the same amount as the national marketing quota heretofore proclaimed, and the National, State, county, and farm acreage allotments for such crop shall be those heretofore proclaimed and apportioned, without further proclamation or apportionment.

STAFF EXPLANATION OF S. 2025 (SUBCOMMITTEE NO. 3)

SHORT EXPLANATION

This bill provides for a voluntary wheat price-support and certificate program under which producers would receive price support of not less than \$2 per bushel for all wheat through loans or similar operations at about the world price and direct payments to make up the balance. Producers would not receive marketing certificates, but processors of wheat for domestic food consumption would be required to purchase certificates at the difference between the loan value and parity. The bill would—

1. Repeal existing provisions for marketing quotas;
2. Make permanent the provision for a minimum national acreage allotment of 49,500,000 acres;
3. Provide price support—
 - (a) through loans, purchases and other operations at not less than the higher of (i) the farm price equivalent of the previous 3-year average world market price, or (ii) 50 percent of parity; and
 - (b) additional price support through payment to bring the total support level to not less than \$2 per bushel and not more than parity.
4. Repeal provisions for acreage penalties for overplanting or underplanting;
5. Require the special acreage reserve for old wheat farms to equal 1 million acres, change the formula for its apportionment, and provide for its apportionment only once (the increase to be reflected in the future allotments to the farms receiving such increases);
6. Permit producers of excess wheat to store their excess and qualify for price support, and (on other farms) for diversion payments;
7. Repeal existing provisions for issuance of marketing certificates to producers and require processors to obtain certificates valued at the difference between the loan value and parity for wheat processed for domestic food consumption;
8. Permit the President to suspend the requirement that processors acquire marketing certificates;
9. Repeal the provision for monetary penalties for producing crops on acreage required to be diverted from wheat;
10. Extend the wheat diversion payment program permanently (but restricted to the acreage diverted in excess of the acreage required to be diverted) with a mandatory payment rate equal to 50 percent of the normal production of the acreage diverted; and
11. Increase the minimum CCC resale price for wheat to 115 percent of the current support price (not including that part of the support price made available through direct payments), plus reasonable carrying charges.

Under the bill acreage allotments would be proclaimed every year. The amount of the national acreage allotment would be the larger of 49,500,000 acres, or the acreage needed to meet the production objective, which could not be less than 1 billion bushels. It would be apportioned among States, counties, and farms as provided by existing law, except that no loss of history would result from the overplanting or underplanting of allotments. Marketing certificates would not be issued to producers as under existing law, but producers would receive price support at approximately the world value through loan or similar operation and additional support through payments to bring the total support level to not less than \$2 and not more than parity. Processors would continue to be required to obtain marketing certificates as at present, except that no certificates would be required on exports and the certificate value would be increased to the difference between the loan level and parity. The President could suspend the requirement that processors acquire certificates to the extent that he determined such suspension would contribute to effectuation of the purposes of the act.

SECTION-BY-SECTION EXPLANATION

Repeal of marketing quota authority—Extension of 49.5-million-acre minimum allotment

Section 1 repeals the existing provisions for wheat marketing quotas, and continues in effect the minimum national acreage allotment of 49.5 million acres.

Subsection (a) provides that, instead of proclaiming marketing quotas when the supply would otherwise be excessive, the Secretary shall determine a production objective each year and proclaim a national acreage allotment designed to achieve it. The formula for determining the production objective would be the same as the present formula for determining the amount of the marketing quota, and the national acreage allotment would be the same as under existing law, except that, in addition to the 1 billion bushel minimum provided by existing law, this subsection would continue the 49.5-million-acre minimum which existing law makes applicable to 1965 only. The national acreage allotment would be apportioned to States, counties, and farms as provided by existing law, except that section 2 of the bill would prevent any history loss by reason of underplanting or overplanting in the same manner that the Agricultural Act of 1964 prevented such loss in 1965, and section 3 of the bill would provide a fixed acreage of 1 million acres for the special acreage reserve for old wheat farms created by the 1964 act. The formula for apportionment of the special reserve is changed to assure that the entire reserve can be apportioned. The special reserve would be apportioned only once, for the 1966 crop, but the apportionment in 1966 would be reflected in future allotments to the farms receiving increases in 1966. Acreage allotments could be increased as under existing law, but the existing provision for termination is deleted.

Subsection (b) repeals Public Law 74, 77th Congress, which deals with wheat marketing penalties, and amends the Agricultural Adjustment Act of 1938 by striking out section 336 which deals with the marketing quota referendum, section 338 which deals with transfers of farm marketing quotas, and provisions in various other sections which have no meaning in the absence of marketing quotas. Paragraphs (8) and (9) of Public Law 74, which deal, respectively, with rice marketing penalties and support for the 1941 through 1946 crops are obsolete, and their repeal merely strikes out ineffective provisions. Rice marketing penalty rates are now established by section 356 of the Agricultural Adjustment Act of 1938.

Subsection (c) makes changes in headings in the Agricultural Adjustment Act of 1938 required by the deletion of quota provisions.

Acreage penalty repeal

Section 2 makes permanent those provisions of the Agricultural Act of 1964 which prevented any loss of State, county, or farm acreage history in 1965 as a result of overplanting or underplanting allotments.

Subsection (a) prevents such loss of history in the case of the State allotment. The proviso to be amended by subsection (a) was added by section 202(1) of the Agricultural Act of 1964.

Subsection (b) prevents such loss of history in the case of the county allotment. The proviso to be amended by subsection (b) was added by section 202(2) of the Agricultural Act of 1964.

Subsection (c) prevents such loss of history at the farm level in the same manner as was provided for 1965 by section 202(3) of the Agricultural Act of 1964.

Subsection (d) complements subsections (a) and (b) by making changes in section 334(g) of the Agricultural Adjustment Act of 1938 necessary to assure that States and counties do not lose history as a result of the overplanting of farm allotments.

Million-acre special acreage reserve

Section 3 would amend the special acreage reserve provisions added to section 334(a) by the Agricultural Act of 1964. Under the amendment, the special acreage reserve would be a flat 1 million acres which would be provided only for the 1966 crop. There would be no specific limitation based on a percentage of the average ratio of wheat acreage allotment to cropland, but the Secretary would be given broad discretion and could provide for an appropriate limitation based on the ratio of allotment to cropland so long as it did not prevent apportionment of the entire 1 million-acre reserve. The acreage history of States, counties, and farms would be adjusted so that the relative advantage of the increases provided in 1966 from the reserve would be maintained in subsequent years. Similar increases in acreage history would be made for farms which received no increase or an inadequate increase from the reserve in 1966 because, under their crop rotation system, their allotment for 1966 was zero, or otherwise disproportionately low when compared to their allotments for other years.

Wheat price support through loans, direct payments without marketing certificates, and other operations

Section 4 repeals the existing provisions for the issuance of marketing certificates to producers and for certificate and noncertificate support prices. It provides instead for (1) price support through loans (or similar operations not including payments) at the higher of the world price or 50 percent of parity, plus (2) payments in an amount sufficient to bring the total support level to not less than \$2 per bushel and not more than parity.

Subsection (a) amends section 107 of the Agricultural Act of 1949, repealing the existing provisions for a domestic marketing certificate support level, an export certificate support level, a noncertificate support level, and the support level when marketing quotas are not proclaimed or are disapproved. In lieu of these provisions subsection (a) provides for—

(1) price support through loans and other operations (not including payments) at a level equal to the higher of (i) the U.S. farm price equivalent of the average world market price of wheat during the immediately 3 preceding marketing years, or (ii) 50 percent of parity; and

(2) additional price support through payments to bring the total support to not less than \$2 per bushel and not more than parity.

The additional support would be paid on the basis of the normal production of the acreage allotment and would be shared by the producers on the farm in the same proportion that they share in the wheat produced on the farm.

At present price support is not made available in the noncommercial area if a commercial area is established, but marketing certificates are made available in that area. Since direct payments would replace marketing certificates under this bill, subsection (a) provides that support through loans would not be available in the noncommercial area, but that price-support payments would be made in such area on such basis as the Secretary may determine to be equitable.

Section 202(13) of the Agricultural Act of 1964 amended section 379c(b) of the Agricultural Adjustment Act of 1938 effective for the 1965 crop only to permit producers exceeding their allotments to qualify for marketing certificates, but not for diversion payments, by storing their marketing excess in accordance with the Secretary's regulations. The existing definition of "cooperator" extends this provision by reference to permit such producers to qualify for price support. Since this bill would repeal all provisions relating to the issuance of marketing certificates to producers, including section 379c, the provision permitting producers to store their excess and qualify for price support has been incorporated by section 4(a) of the bill into the price support provisions. Section 4(a) also makes this provision permanent, extends it to permit a producer who stores his excess produced on one farm to qualify for diversion payments on another farm, and makes other technical changes re-

quired by the repeal of provisions for marketing quotas and marketing certificates.

Subsections (b) and (c) repeal existing provisions for the issuance of marketing certificates to producers. Under the bill price-support payments would take the place of certificates, and achieve the same purpose in a much simpler manner.

Processors required to acquire marketing certificates unless such requirement is suspended—Certificates not required on exports

Section 5 would fix the face value of marketing certificates required to be acquired by processors at the difference between the support level (not including the additional support made through payments) and parity. It further would authorize the President to suspend the requirement that processors acquire marketing certificates. This section also repeals the requirement that exporters acquire marketing certificates for wheat exported by them, since it is the purpose of the bill that wheat move freely into export. The President might suspend the requirement that processors acquire certificates either in whole or in part. If he determined, for instance, that the regulation of commerce would be better served by requiring the processors to acquire certificates for a part of the wheat processed by them, he could so provide. The suspension might be for an entire marketing year or a shorter or longer period, as determined by the President.

Repeal of monetary penalties for production on diverted acres

Section 6 repeals the provision for monetary penalties for producing crops on acreage required to be diverted from wheat. Producers would continue, however, to be subject to loss of eligibility for wheat price support if they produced crops on such acreage. The Agricultural Act of 1964 made similar provision with respect to the 1964 and 1965 crops.

Extension of wheat acreage diversion payment program

Section 7 extends the authority for a wheat acreage diversion payment program permanently (but limits it to the acreage diverted in excess of the acreage required to be diverted by section 339(a) of the Agricultural Adjustment Act of 1938) and provides for a mandatory payment rate if such a program is promulgated equal to 50 percent of the support price (not including payments) times the normal production of the acreage diverted from wheat.

Minimum Commodity Credit Corporation sales price

Section 8 increases the minimum price at which Commodity Credit Corporation may sell wheat to 115 percent of the current support price (not including that part of the support price made available through direct payments) plus reasonable carrying charges. The existing law provides that for 1964 and 1965 the minimum CCC sales price is 105 percent of the current support price for wheat unaccompanied by marketing certificates, and beginning July 1, 1966 the minimum CCC sales price would be 105 percent of the current support price for wheat accompanied by certificates.

Effective date

Section 9 would make the bill effective with the 1966 crop. A national acreage allotment of 47.8 million acres for the 1966 crop was proclaimed on April 14. Since this is below the minimum required by the bill, the last sentence of section 9 should be changed to provide for proclamation of a production objective and new national acreage allotment for 1966.

JUNE 9, 1965.

[S. 2079, 89th Cong., 1st sess.]

A BILL To expand the market for cotton, to assist in the orderly marketing of cotton, to strengthen the cotton industry, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Cotton Act of 1965".

SEC. 2. Effective with the 1966 crop of cotton, section 103 of the Agricultural Act of 1949, as amended (7 U.S.C. 1444), is amended to read as follows:

"SEC. 103. Notwithstanding the provisions of section 101 of the Act, price support shall be made available to cooperators for each crop of upland cotton for

which producers have not disapproved marketing quotas at 90 per centum of the average price received by farmers during the three complete marketing years immediately preceding the calendar year in which the marketing year for such crop begins, excluding additional price support payments provided by the Secretary in excess of the basic level of support: *Provided*, That the level of price support—

“(1) for the 1966 crop of upland cotton shall be a national average support price which reflects 28 cents per pound for Middling one-inch cotton; and

“(2) for the 1967 crop of upland cotton shall be a national average support price which reflects 27 cents per pound for Middling one-inch cotton.

Price support in the case of noncooperators and in case marketing quotas are disapproved shall be as provided in section 101(d) (3) and (5).”

SEC. 3. Effective August 1, 1966, section 348 of the Agricultural Adjustment Act of 1938, as amended (7 U.S.C. 1281; 52 Stat. 31, is amended—

(a) by changing “1966” where it first appears to “1967”; and

(b) by striking the proviso and substituting: “*Provided*, That for the period beginning August 1, 1966, and ending July 31, 1967, such payments shall be 4 cents per pound of upland cotton less than the payments made during the period August 1, 1964, to July 31, 1965.”

SEC. 4. (a) Section 344(m) (3) of the Agricultural Act of 1938, as amended (7 U.S.C. 1344), is amended to read as follows:

“(3) (i) The Secretary is authorized and directed to enter into contracts in advance of the planting of the 1966 and 1967 crops of upland cotton with producers determined by him to have control of the farms covered by the contracts if such producers agree to permanently release to the county committee the entire upland cotton farm acreage allotment on their farms and to devote such acreage to soil-conserving uses for three years. (ii) The Secretary shall make an annual retirement payment for three years to producers who permanently release acreage allotments pursuant to this paragraph (3). Annual retirement payments shall be equal to 8 cents per pound times the normal annual yield of acreage from which the allotment is released. The Secretary shall make retirement payments in cash. (iii) Acreage released under this paragraph shall not be credited to the State in determining future allotments.”

(b) Section 344(b) of the Agricultural Act of 1938, as amended, is amended by inserting before the first proviso of the first sentence the following: “*Provided*, That, notwithstanding any other provision of law, acreage equal to the acreage released by producers pursuant to contracts entered into by the Secretary under subsection (m) (3) of this section shall not be apportioned to the States during the three-year contract period such released acreage is being devoted to soil-conserving uses:”.

SEC. 5. Effective with the 1966 crop of cotton, sections 349 and 350 of the Agricultural Adjustment Act of 1938, as amended (7 U.S.C. 1281), are repealed.

RESTRICTIONS ON SALES BY THE COMMODITY CREDIT CORPORATION

SEC. 6. Effective with the 1966 crop of cotton, section 407 of the Agricultural Act of 1949, as amended (7 U.S.C. 1427), is amended by deleting the second proviso in the third sentence thereof.

STAFF EXPLANATION OF S. 2079 (SUBCOMMITTEE No. 3)

This bill would—

(1) fix the support price for upland cotton, basis Middling inch at—

(i) 28 cents per pound for 1966,

(ii) 27 cents per pound for 1967, and

(iii) 90 percent of the previous 3-year average price for each marketing year thereafter;

(2) extend the cotton domestic subsidy program 1 year (1966–67), but reduce the subsidy 4 cents below that for 1964–65 (to 2.5 cents per pound, assuming the 1964–65 rate remains at 6.5 cents);

(3) authorize the Secretary of Agriculture to make three annual payments of 8 cents per pound of normal yield for each full farm cotton allotment permanently released in 1966 or 1967 and devoted to soil conserving use for 3 years. Acreage so released would not be credited to the State and could

not be reapportioned during the 3-year period. This would permit the released allotment to move to other States after the 3-year period;

(4) repeal the provision fixing the minimum CCC sales price for upland cotton at 105 percent of current support, plus reasonable carrying charges. The minimum CCC sales price would then revert to 115 percent of current support, plus reasonable carrying charges (except that the Corporation could sell at the market price a quantity in any marketing year equal to the quantity by which the marketing quota is reduced below estimated domestic consumption and exports).

This bill would also repeal sections 349 and 350 of the Agricultural Adjustment Act of 1938, which provide for export market acreage and domestic allotments in 1964 and 1965.

SUGGESTED AMENDMENTS

1. Repeal of section 349 would repeal the provision stating that acreage planted under section 349 would not count as history toward future allotments. It should be made clear that repeal of section 349 would not result in having such acreage counted as history.

2. The amendment changing the minimum CCC resale price should be made effective August 1, 1966, rather than beginning with the 1966 crop.

JUNE 14 1965.

[S. 2110, 89th Cong., 1st sess.]

A BILL To bring supplies of feed grains and cotton in line with demand

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the Agricultural Act of 1965.

TITLE I—FEED GRAIN MARKETING QUOTAS AND PRICE SUPPORT

SEC. 101. Subtitle B of title III of the Agricultural Adjustment Act of 1938, as amended, is further amended by inserting after part VI a new part VII as follows:

“PART VII—MARKETING QUOTAS—FEED GRAINS

“LEGISLATIVE FINDINGS

“SEC. 360a. The production of feed grains is a vital part of the agricultural economy of the United States. Feed grains move almost wholly in interstate and foreign commerce in the form of grains, livestock, and livestock products.

“Abnormally excessive and abnormally deficient supplies of feed grains on the national market acutely and directly burden obstruct, and affect interstate and foreign commerce. When the available supply of feed grains is excessive, the prices of feed grains are unreasonably low and farmers over expand livestock production to find outlets for feed grains. Excessive supplies of feed grains cause the marketing of excessive supplies of livestock in interstate and foreign commerce at sacrificial prices, endanger the financial stability of producers, and overtax the handling, processing, and transportation facilities through which the flow of interstate and foreign commerce in feed grains, livestock, and livestock products is directed. Deficient supplies of feed grains result in substantial decreases in livestock production and in an inadequate flow of livestock and livestock products in interstate and foreign commerce, with the consequence of unreasonably high prices to consumers and loss of markets for producers.

“Although certain feed grains are better suited for production in some areas than other feed grains, in general, one of several feed grains can be grown on the same land. A marketing program which provides for a single quota applicable to feed grains and which permits producers to determine, within the quota, which feed grains they shall produce will tend to effectuate the policy of the Act and will permit producers the maximum amount of freedom of choice consistent with the attainment of the policy of the Act.

“The conditions affecting the production and marketing of feed grains are such that, without Federal assistance farmers, individually or in cooperation, cannot effectively provide for a balanced supply of feed grains and the orderly marketing of feed grains in interstate and foreign commerce at prices which are fair and reasonable to farmers and consumers.

"The national public interest and general welfare require that the burdens on interstate and foreign commerce above described be removed by the exercise of Federal power. Feed grains which do not move in the form of feed grains outside of the State where they are produced are so closely and substantially related to feed grains which move in the form of feed grains outside of the State where they are produced, and have such a close and substantial relation to the volume and price of livestock and livestock products in interstate and foreign commerce, that it is necessary to regulate feed grains which do not move outside the State where they are produced to the extent set forth in this Act.

"The diversion of substantial acreage from feed grains to the production of commodities which are in surplus supply or which will be in surplus supply if they are permitted to be grown on the diverted acreage would burden, obstruct, and adversely affect interstate and foreign commerce in such commodities, and would adversely affect the prices of such commodities in interstate and foreign commerce. Small changes in the supply of a commodity could create a sufficient surplus to affect seriously the price of such commodity in interstate and foreign commerce. Large changes in the supply of such commodity could have a more acute effect on the price of the commodity in interstate and foreign commerce and, also, could overtax the handling, processing, and transportation facilities through which the flow of interstate and foreign commerce in such commodity is directed. Such adverse effects caused by overproduction in one year could further result in a deficient supply of the commodity in the succeeding year, causing excessive increases in the price of the commodity in interstate and foreign commerce in such year. It is, therefore, necessary to prevent acreage diverted from the production of feed grains from being used to produce commodities which are in surplus supply or which will be in surplus supply if they are permitted to be grown on the diverted acreage.

"NATIONAL MARKETING QUOTA

"SEC. 360b. (a) Whenever prior to June 20 in any calendar year the Secretary determines that the total supply of feed grains in the marketing year beginning in the next succeeding calendar year will, in the absence of a marketing quota program, likely to be excessive, the Secretary shall proclaim that a national marketing quota for feed grains shall be in effect for such marketing year and for either the following marketing year or the following two marketing years, if the Secretary determines and declares in such proclamation that a two- or three-year marketing quota program is necessary to effectuate the policy of the Act.

"(b) If a national marketing quota for feed grains has been proclaimed for any marketing year, the Secretary shall determine and proclaim the amount of the national marketing quota for such marketing year not earlier than January 1 or later than June 20 of the calendar year preceding the year in which such marketing year begins. The amount of the national marketing quota for feed grains for any marketing year shall be an amount of feed grains which, during such marketing year, the Secretary estimates (i) will be utilized in the United States in the production of the volume of livestock (including poultry) and livestock products determined to be needed to meet domestic consumption and export requirements, (ii) will be utilized for human consumption in the United States as food, food products, and beverages, composed wholly or partly of feed grains, (iii) will be utilized in the United States for seed and industrial uses, and (iv) will be exported either in the form of feed grains or products thereof; less (A) an amount of feed grains equal to the estimated imports of feed grains into the United States during such marketing year, and (B) if the stocks of feed grains owned by the Commodity Credit Corporation are determined by the Secretary to be excessive, an amount of feed grains determined by the Secretary to be a desirable reduction in such marketing year in such stocks to achieve the policy of the Act: *Provided*, That if the Secretary determines that the total stocks of feed grains in the Nation are insufficient to assure an adequate carryover for the next succeeding marketing year, the national marketing quota otherwise determined shall be increased by the amount the Secretary determines to be necessary to assure an adequate carryover: *And provided further*, That the national marketing quota for feed grains for any marketing year shall be not less than one hundred and ten million tons.

"(c) If, after the proclamation of a national marketing quota for feed grains for any marketing year, the Secretary has reason to believe that, because of

a national emergency or because of a material increase in the demand for feed grains, the national marketing quota should be terminated or the amount thereof increased, he shall cause an immediate investigation to be made to determine whether such action is necessary in order to meet such emergency or increase in the demand for feed grains. If, on the basis of such investigation, the Secretary finds that such action is necessary, he shall immediately proclaim such finding and the amount of any such increase found by him to be necessary and thereupon such national marketing quota shall be so increased or terminated. In case any national marketing quota is increased under this subsection, the Secretary shall provide for such increase by increasing acreage allotments established under this part by a uniform percentage.

"NATIONAL ACREAGE ALLOTMENT

"SEC. 360c. Whenever the amount of the national marketing quota for feed grains is proclaimed for any marketing year, the Secretary at the same time shall proclaim a national acreage allotment for the crop of feed grains planted for harvest in the calendar year in which such marketing year begins. The amount of the national acreage allotment shall be the number of acres which the Secretary determines on the basis of expected yields and expected underplantings of farm acreage allotments will, together with the expected production (1) on increased acreage resulting from exemptions pursuant to sections 360f and 360k, and (2) of silage on acreage excluded from the acreage of feed grains pursuant to section 301(a)(11), make available a supply of feed grains equal to the national marketing quota for feed grains for such marketing year.

"APPORTIONMENT OF NATIONAL ACREAGE ALLOTMENT

"SEC. 360d. (a) The national acreage allotment for any crop of feed grains, less a reserve acreage of not to exceed 1 per centum thereof for use as provided in subsection (b)(2) of this section, shall be apportioned by the Secretary among the several States on the basis of the base acreage of feed grains for each State. The State base acreage of feed grains shall be the average acreage of feed grains in the State during the base period, adjusted pursuant to subsection (d) of this section.

"(b)(1) The State acreage allotment for any crop of feed grains, less a reserve acreage of not to exceed 3 per centum thereof for use as provided in subsection (c)(2) of this section, shall be apportioned by the Secretary among the counties in the State on the basis of the base acreage of feed grains for each county. The county base acreage of feed grains shall be the average acreage of feed grains in the county during the base period, adjusted pursuant to subsection (d) of this section.

"(2) The reserve acreage established pursuant to subsection (a) of this section shall be used by the Secretary to make increases in county acreage allotments on the basis of the relative needs of counties for an additional share of the national acreage allotment because of reclamation and other new areas coming into the production of feed grains.

"(c)(1) The county acreage allotment for any crop of feed grains shall be apportioned by the Secretary, through the county committee, among the farms in the county on the basis of the base acreage of feed grains for each farm. The farm base acreage of feed grains shall be the average acreage of feed grains on the farm during the base period, adjusted pursuant to subsection (d) of this section.

"(2) The reserve acreage established pursuant to subsection (b)(1) of this section shall be available:

"(A) For apportionment to farms which were eligible to receive farm acreage allotments under this part, but which through error did not receive such allotments;

"(B) For making increases in farm acreage allotments on the basis of any one or more of the following factors: tillable acres, type of soil, topography, established crop-rotation practices on the farm, hardship, inequities in allotments, and such other factors as the Secretary determines should be considered for the purpose of establishing fair and equitable farm acreage allotments; and

"(C) For apportionment to farms for which farm acreage allotments were not determined because there were no acreages of feed grains on such farms during the base period on the basis of the following factors: the suitability of

the land for the production of feed grains, the past experience of the farm operator in the production of feed grains, the extent to which the farm operator is dependent on income from farming for his livelihood, the production of feed grains on other farms owned, operated, or controlled by the farm operator, and such other factors as the Secretary determines should be considered for the purpose of establishing fair and equitable farm acreage allotments.

“(d) In determining the State, county, and farm base acreages—

“(1) the base period shall be the calendar years 1959 and 1960 for the purpose of determining acreage allotments for the 1966, 1967, and 1968 crops of feed grains; and for the purpose of determining acreage allotments for subsequent crops of feed grains, the base period shall be the two most recent calendar years during which a marketing quota program was in effect for which statistics of the Federal Government are available;

“(2) the Secretary shall make such adjustments as he determines are necessary for abnormal conditions affecting the acreage of feed grains planted for harvest, land which is regarded as devoted to the production of feed grains for the purposes of the 1964 or 1965 feed grain programs or under other Federal farm programs, acreage diverted from the production of feed grains under this part, established crop-rotation practices on the farm, and such other factors as the Secretary determines should be considered for the purpose of establishing fair and equitable base acreages;

“(3) the acreage of feed grains on the farm in excess of the farm acreage allotment shall be excluded in determining the average acreage of feed grains for the State, county, or farm, except that in the case of a farm which is exempt from the farm marketing quota under the small farm exemption in section 360f, or under the exemption in section 360k, the acreage on the farm in excess of the farm acreage allotment but not in excess of the farm base acreage, shall not be excluded.

“GEOGRAPHICAL APPLICABILITY

“SEC. 360e. This part VII shall be applicable to the continental United States excluding Alaska.

“SMALL FARM EXEMPTION

“SEC. 360f. Notwithstanding any other provision of this part, no farm marketing quota for any crop of feed grains shall be applicable to any farm with a farm acreage allotment of less than twenty-five acres if the acreage of such crop of feed grains does not exceed the smaller of (A) the farm base acreage determined for the farm, or (B) twenty-five acres unless the operator elect in writing on a form and within the time prescribed by the Secretary to be subject to the farm acreage allotment and marketing quota. If the operator of any such farm fails to make such election with respect to any crop of feed grains, (i) for the purposes of section 360h, the farm acreage allotment for such crop of feed grains shall be deemed to be the smaller of (A) the farm base acreage, or (B) twenty-five acres, (ii) the land-use provisions of section 360j shall be inapplicable to the farm, and (iii) such crop of feed grains shall not be eligible for price support.

“REFERENDUM

“SEC. 360g. If a national marketing quota for feed grains for one, two, or three marketing years is proclaimed, the Secretary shall, not later than sixty days after such proclamation is published in the Federal Register, conduct a referendum, by secret ballot, of farmers to determine whether they favor or oppose marketing quotas for the marketing year or years for which proclaimed. Any producer who has a feed grain base shall be eligible to vote in any referendum held pursuant to this section, except that a producer who has a farm acreage allotment of less than twenty-five acres shall not be eligible to vote unless the farm operator elected, pursuant to section 360f, to be subject to the farm acreage allotment and marketing quota. The Secretary shall proclaim the results of any referendum held hereunder within thirty days after the date of such referendum, and if the Secretary determines that more than one-third of the farmers voting in the referendum voted against marketing quotas, the Secretary shall proclaim that marketing quotas will not be in effect with respect to the crop of feed grains produced for harvest in the calendar year following the calendar year in which the referendum is held. If the Secretary determines

that two-thirds or more of the farmers voting in a referendum approve marketing quotas for a period of two or three marketing years, no referendum shall be held for the subsequent year or years of such period.

“COMPLIANCE

“SEC. 360h. (a)(1) The farm marketing quota for any crop of feed grains shall be the actual production of the acreage of feed grains on the farm less the farm marketing excess. The farm marketing excess shall be an amount equal to twice the normal production of the acreage of feed grains on the farm in excess of the farm acreage allotment for such crop: *Provided*, That the farm marketing excess shall be an amount equal to the actual production of the number of acres of feed grains on the farm in excess of the farm acreage allotment for such crop, if the producer, in accordance with regulations issued by the Secretary and within the time prescribed therein, establishes to the satisfaction of the Secretary the actual production of such crop of feed grains on the farm: *Provided further*, That if there is an acreage of more than one feed grain on the farm, in determining which acreage is in excess of the farm acreage allotment, the acreage of the feed grain or grains which has the highest value, based on the normal yield of the feed grain on the farm multiplied by the basic county support rate for the feed grain, shall be considered as the acreage in excess of the farm acreage allotment.

“(2) For the purposes of this section, (i) ‘actual production’ of any number of acres of a feed grain on a farm means the actual average yield of such feed grain on the farm multiplied by the number of acres of such feed grain, and (ii) ‘normal production’ of any number of acres of a feed grain on a farm means the normal yield of such feed grain on the farm multiplied by the number of acres of such feed grain. The normal yield of any feed grain for a farm shall be the average yield per acre of such feed grain on the farm during the five calendar years immediately preceding the year in which such normal yield is determined, adjusted for abnormal weather conditions and for trends in yields. If for any such year the data are not available or there is no actual yield, then the normal yield for the farm shall be appraised in accordance with regulations issued by the Secretary, taking into consideration abnormal weather conditions, trends in yields, the normal yield for the county, the normal yields for similar or adjacent farms, and the yield in years for which data are available.

“(3) In determining the farm marketing quota and farm marketing excess, (i) any acreage of a feed grain remaining after the date prescribed by the Secretary for the disposal of excess acres of such feed grain shall be included as an acreage of feed grains on the farm, and the production thereof shall be appraised in such manner as the Secretary determines will provide a reasonably accurate estimate of such production, (ii) any acreage of any feed grain classified as wheat acreage pursuant to section 360i shall not be considered feed grain acreage, and (iii) any acreage of feed grains disposed of in accordance with regulations issued by the Secretary prior to such date as may be prescribed by the Secretary shall be excluded in determining the farm marketing quota and farm marketing excess, and (iv) any acreage of barley disposed of by grazing not later than thirty days prior to the date the harvest of barley normally begins in the county or the area within the county as determined by the Secretary shall be excluded in determining the farm marketing quota and farm marketing excess. Marketing quotas for any marketing year shall be in effect with respect to feed grains harvested in the calendar year in which such marketing year begins notwithstanding that the feed grains are marketed prior to the beginning of such marketing year.

“(b) Whenever farm marketing quotas are in effect with respect to any crop of feed grains, the farm marketing excess of any feed grain shall be regarded as available for marketing, and the producers on a farm shall be subject to a penalty on the farm marketing excess of feed grains at a rate per bushel on the amount of feed grains in the farm marketing excess equal to 65 per centum of the parity price of the particular feed grain involved as of May 1 of the calendar year in which the crop is harvested. Each producer having an interest in the crop of feed grains on any farm for which a farm marketing excess of feed grains is determined shall be jointly and severally liable for the entire amount of the penalty on the farm marketing excess.

“(c) If the farm marketing excess is adjusted downward on the basis of actual production as heretofore provided, the difference between the amount of the penalty computed upon the basis of twice the normal production and as

computed upon the basis of actual production shall be returned to or allowed the producer.

“(d) Until the producers on any farm pay the penalty on the farm marketing excess of any crop of feed grains, the entire crop of feed grains produced on the farm and any subsequent crop of feed grains subject to marketing quotas in which the producer has an interest shall be subject to a lien in favor of the United States for the amount of the penalty.

“(e) Until the penalty on the farm marketing excess of feed grains is paid, each bushel of feed grains produced on the farm shall be subject to the penalty specified in subsection (b) of this section, and such penalty on each bushel of feed grains which is sold by the producer to any person within the United States shall be paid by the buyer, who may deduct an amount equivalent to the penalty from the price paid to the producer. If the buyer fails to collect such penalty, such buyer and all persons entitled to share in the feed grains marketed from the farm or the proceeds thereof shall be jointly and severally liable for such penalty.

“(f) The persons liable for the payment or collection of the penalty on any amount of feed grains shall be liable also for interest thereon at the rate of 6 per centum per annum from the date the penalty becomes due until the date of payment of such penalty.

“SUBSTITUTION OF WHEAT AND FEED GRAINS

“SEC. 360i. Notwithstanding any other provision of law, the Secretary shall permit producers of wheat to have acreage devoted to the production of wheat considered as devoted to the production of feed grains, and producers of feed grains to have acreage devoted to the production of feed grains considered as devote to the production of wheat, to such extent and subject to such terms and conditions as the Secretary determines will not impair the effective operation of this subtitle B.

“LAND USE

“SEC. 360j. (a) (1) During any year in which marketing quotas for feed grains are in effect, the producers on any farm (except a farm for which a farm acreage allotment is established pursuant to section 360d(c) (2) (C)) on which any crop is produced on acreage required to be diverted from the production of feed grains shall be subject to a penalty on such crop, in addition to any marketing quota penalty applicable to such crop, as provided in this subsection, unless (i) the crop is designated by the Secretary as one which is not in surplus supply and will not be in surplus supply if it is permitted to be grown on the diverted acreage, or as one the production of which will not substantially impair the purpose of the requirements of this section, or (ii) no feed grains are produced on the farm. The acreage required to be diverted from the production of feed grains on the farm shall be an acreage of cropland equal to the amount by which the base acreage of feed grains for the farm exceeds the farm acreage allotment for feed grains. The actual production of any crop subject to penalty under this subsection shall be regarded as available for marketing and the penalty on such crop shall be computed on the actual acreage of such crop at the rate of 65 per centum of the parity price per bushel, as of May 1 of the calendar year in which the crop is harvested, of the feed grain determined by the Secretary to be the principal feed grain produced in the county, multiplied by the normal yield for such feed grain as defined in section 360h(a). Until the producers on any farm pay the penalty on such crop, the entire crop of feed grains produced on the farm and any subsequent crop of feed grains subject to marketing quotas in which the producer has an interest shall be subject to a lien in favor of the United States for the amount of the penalty. Each producer having an interest in the crop or crops on acreage diverted or required to be diverted from the production of feed grains shall be jointly and severally liable for the entire amount of the penalty. The Secretary may require the penalty on the production of crops on the diverted acreage to be collected by the purchaser of feed grains produced on the farm. The persons liable for the payment or collection of the penalty under this section shall be liable also for interest thereon at the rate of 6 per centum per annum from the date the penalty becomes due until the date of payment of such penalty.

“(2) The Secretary may require that the acreage on any farm diverted from the production of feed grains be land which was diverted from the production of feed grains in the previous year, to the extent he determines that such requirement is necessary to effectuate the purposes of this subtitle.

"(3) The diverted acreage shall not be grazed unless the Secretary, after certification by the Governor of the State in which such acreage is situated of the need for grazing on such acreage, determines that it is necessary to permit grazing thereon in order to alleviate damage, hardship, or suffering caused by severe drought, flood, or other natural disaster, and consents to such grazing.

"DEFICIT AREAS

"SEC. 360k. Notwithstanding any other provision of this part, in any area (county, State, or region) in which the Secretary determines (1) that the application of the provisions of this part would result in an average loss of 25 per centum gross of income to producers in such area, would increase by 25 per centum the price of feed grains in such area relative to other areas, and would disrupt normal farming practices in such area, based on 1959-1960 operations, and (2) that the exception provided by this section would not impair the effective operation of this Act, he may provide in accordance with such regulations as he may prescribe that no farm marketing quota for any crop of feed grains shall be applicable to any farm in such area, if the acreage of such crop of feed grains does not exceed the farm base acreage determined for the farm. If the Secretary so provides, (i) for the purposes of section 360h, the farm acreage allotment for such crop of feed grains shall be deemed to be the farm base acreage, (ii) the land-use provisions of section 360j shall be inapplicable to the farm, (iii) such crop of feed grains shall not be eligible for price support, and (iv) the producers on such farm shall not be eligible to vote in any referendum on marketing quotas for such crop.

"AUTHORITY TO EXEMPT MALTING BARLEY

"SEC. 360l. Notwithstanding any other provision of this part, if with respect to any crop of barley the Secretary finds that there is not likely to be production of a sufficient quantity of malting barley to satisfy the demand therefor, subject to such terms and conditions as the Secretary shall prescribe, the farm marketing quota or farm acreage allotment for any crop of feed grains shall not be applicable to malting barley on any farm, if (i) the operator elects in writing on a form and within the time prescribed by the Secretary to have malting barley exempt therefrom, (ii) such operator has previously produced a malting variety of barley, plants barley only of an acceptable malting variety for harvest during the crop year, and does not knowingly devote during such crop year an acreage on the farm to barley in excess of 110 per centum of the acreage devoted on the farm to barley in 1959 and 1960, or such later two-year period determined by the Secretary to be representative, and (iii) the farm base acreage and the farm acreage allotment for such crop of feed grains are adjusted downward by such amount as the Secretary determines appropriate to reflect the exclusion of such barley from the farm acreage allotment."

SEC. 102. Section 2 of the Agricultural Adjustment Act of 1938, as amended, is hereby amended by striking out "and" immediately following the last semicolon, and by changing the period at the end thereof to a semicolon, and by adding immediately following such new semicolon the following: "and to reduce the annual carryover of feed grains, to stabilize the supply of feed grains, and to provide for an adequate and balanced flow of feed grains so that the prices of feed grains are fair to producers and consumers and the total supply of feed grains available for utilization of livestock feed is maintained at a level which is consistent with the production of the quantities of livestock and the products thereof that will be consumed and exported at prices which are fair to producers and consumers."

SEC. 103. Section 301 of the Agricultural Adjustment Act of 1938, as amended, is hereby amended as follows:

(1) Subsection (a) is amended by adding at the end thereof the following new items:

"(10) The term 'feed grains' means corn, grain sorghums, and barley.

"(11) The term 'acreage of feed grains' means acreage of feed grains planted for harvest (including self-seeded feed grains), but excluding the acreage of feed grains harvested for silage not in excess of the acreage of feed grains harvested for silage during the base period as defined in section 360d(d) if the operator of the farm elects in writing to have such feed grains harvested for silage excluded. The review provisions applicable to marketing

quotas in sections 361-367 shall apply to the determination of the acreage of silage exempt under this subsection.

“(12) The term ‘crop’ is applied to ‘feed grains’ means all of the crops of the agricultural commodities which comprise feed grains and which are produced for harvest in the same calendar year.”

(2) Subsection (b) (6) (A) is amended to read as follows:

“(6) (A) ‘Market’ in the case of cotton, rice, tobacco, wheat, and feed grains, means to dispose of, in raw or processed form, by voluntary or involuntary sale, barter, or exchange, or by gift inter vivos, and, in the case wheat and feed grains, by feeding (in any form) to poultry or livestock which, or the products of which, are sold, bartered, or exchanged, or to be so disposed of.”

(3) Subsection (b) (7) is amended to read as follows:

“(7) ‘Marketing year’ means, in the case of the following commodities, the period beginning on the first and ending with the second date specified below:

“Barley, July 1-June 30;

“Corn, October 1-September 30;

“Cotton, August 1-July 31;

“Grain sorghums, July 1-June 30;

“Peanuts, August 1-July 31;

“Rice, August 1-July 31;

“Tobacco (Flue-cured), July 1-June 30;

“Tobacco (other than Flue-cured), October 1-September 30;

“Wheat, July 1-June 30.

“‘Marketing year’ means, in the case of ‘feed grains’ the marketing years for the agricultural commodities comprising the feed grains.”

SEC. 104. Sections 361, 362, and 363 of the Agricultural Adjustment Act of 1938, as amended, are hereby amended as follows:

(1) Section 361 is amended by adding “feed grains,” after “wheat,” and by changing the period at the end of the section to a comma and adding the following: “and to the review of land-use penalties assessed pursuant to sections 339 and 360j.”

(2) Section 362 is amended by adding at the end thereof the following:

“Notice of the land-use penalty assessed pursuant to section 339 or 360j shall be mailed to the farmer.”

(3) Section 363 is amended by adding “or land-use penalty” after the word “quota” wherever it appears in such section.

SEC. 105. Section 372 of the Agricultural Adjustment Act of 1938, as amended, is hereby amended by adding “feed grains,” after “wheat,” in subsection (a) thereof.

SEC. 106. Sections 373, 374, and 375 of the Agricultural Adjustment Act of 1938, as amended, are hereby amended by deleting “corn” wherever it appears and by substituting in lieu thereof “feed grains”; and subsection (b) of section 375 of the Agricultural Adjustment Act of 1938, as amended, is further amended by striking out the period at the end of the sentence and inserting at the end thereof the following: “or to effectuate the provisions thereof.”

SEC. 107. The last sentence of section 379c(b) of the Agricultural Adjustment Act of 1938, as amended, preceding the language added to the end of that section by section 202(13) of the Agricultural Act of 1964 is amended to read as follows: “No producer shall be deemed to have exceeded the farm acreage allotment for wheat or feed grains on any other farm, if such farm is exempt from the marketing quota for such crop under section 335, 360f, or 360k.”

SEC. 108. The amendments to the Agricultural Adjustment Act of 1938, as amended, made by sections 101 through 107 of this Act shall be in effect only with respect to programs applicable to crops planted for harvest in the calendar year 1966 or any subsequent year and to the marketing years beginning in the calendar year 1966 or any subsequent year.

SEC. 109. Section 105 of the Agricultural Act of 1949, as amended, is amended, effective beginning with the 1966 crop, to read as follows:

“SEC. 105. (a) Notwithstanding the provisions of section 101 of this Act—

“(1) if marketing quotas for any crop of corn, grain sorghums, and barley are not disapproved by producers, price support for corn of such crop shall be made available at such level not less than 65 per centum or more

than 90 per centum of the parity price therefor as the Secretary determines appropriate after consideration of (i) the factors specified in section 401(b) of this Act, (ii) the supplies of feed grains that would be available during the marketing year at prices approximating the support prices of feed grains, and (iii) consumption goals during the marketing year for livestock and livestock products, taking into consideration consumption under special governmental programs, and imports and exports of livestock and livestock products.

“(2) if marketing quotas for any crop of corn, grain sorghums, and barley are disapproved by producers, price support for corn of such crop shall be at such level not to exceed 50 per centum of the parity price therefor as the Secretary determines appropriate after consideration of the facts specified in section 401(b).

“(3) price support for each crop of barley and grain sorghums, respectively, shall be at such level as the Secretary determines is fair and reasonable in relation to the level at which price support is made available for corn, taking into consideration the feeding value of such feed grain in relation to corn and the other factors specified in section 401(b) of this Act.

“(4) price support for corn, grain sorghums, and barley shall be made available only to cooperators.

“(5) if marketing quotas are in effect for the crop of corn, grain sorghums, and barley, a ‘cooperator’ with respect to any such feed grain produced on a farm shall be a producer who (i) does not knowingly exceed (A) the farm acreage allotment for feed grains or any other commodity on the farm or, (B) except as the Secretary may by regulation prescribe, the farm acreage allotment on any other farm for any commodity in which he has an interest as a producer, and (ii) complies with the land-use requirements of section 360j of the Agricultural Adjustment Act of 1938, as amended, to the extent prescribed by the Secretary. If marketing quotas are not in effect for the crop of corn, grain sorghums, and barley, a ‘cooperator’ with respect to any crop of corn, grain sorghums, and barley produced on a farm shall be a producer who does not knowingly exceed the farm acreage allotment for feed grains. No producer shall be deemed to have exceeded a farm acreage allotment for wheat if the entire amount of the farm marketing excess of wheat is delivered to the Secretary or stored in accordance with applicable regulations to avoid or postpone payment of the penalty, but the producer shall not be eligible to receive price support on such farm marketing excess. No producer shall be deemed to have exceeded the farm acreage allotment for wheat on the farm, or the farm acreage allotment for wheat or feed grains on any other farm, if such farm is exempt from the farm marketing quota for such crop under section 335, 360f, or 360k of the Agricultural Adjustment Act of 1938, as amended.”

TITLE II—EXTENSION OF COTTON DOMESTIC ALLOTMENT PROGRAM

SEC. 201. Section 103(b) of the Agricultural Act of 1949, as amended, is amended to read as follows:

“(b) If producers have not disapproved marketing quotas, the Secretary shall, beginning with the 1964 crop and continuing until such time as he determines that supplies of upland cotton are at reasonable levels, provide additional price support on each crop of upland cotton to cooperators on whose farms the acreage planted to upland cotton for harvest does not exceed the farm domestic allotment established under section 350 of the Agricultural Adjustment Act of 1938, as amended. Such additional support shall be at a level up to 15 per centum in excess of the basic level of support established under subsection (a) and shall be provided on the normal yield of the acreage planted for harvest within the farm domestic allotment.”

SEC. 202. The first sentence of section 350 of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows: “In order to provide producers with a choice program of reduced acreage and higher price support, the Secretary shall, beginning with the 1964 crop and continuing until such time as he determines that supplies of upland cotton are at reasonable levels, establish for each farm for each crop of upland cotton a farm domestic allotment in acres.”

STAFF EXPLANATION OF S. 2110

SHORT EXPLANATION

This bill—

(1) provides for marketing quotas for corn, grain sorghums, and barley with higher minimum mandatory price support levels for those commodities (and no mandatory support for oats and rye) ; and

(2) extends the cotton domestic allotment program until supplies have been reduced to reasonable levels.

EXPLANATION OF TITLE I—FEED GRAINS

Title I of the bill, which provides for marketing quotas and price support for feed grains, is identical to provisions approved by the Senate on May 24, 1962, in the consideration of S. 3225, except for minor corrections and changes required by the passage of time.

It provides for the proclamation of marketing quotas for 1, 2, or 3 years, whenever the supply would otherwise be excessive. The quota would be such as would provide for a gradual reduction in CCC stocks but assure an adequate carryover and would in no event be less than 110 million tons.

The quota would be converted to an acreage allotment and apportioned to States, counties, and farms on the basis of past acreage (1959 and 1960 acreage in the case of the 1966, 1967, and 1968 allotments, the acreage for the most recent quota years in the case of subsequent allotments). Up to 1 percent of the national allotment could be reserved for reclamation and other new production areas, and up to 3 percent of each State allotment could be reserved for new farms, and to correct errors and make equitable increases in farm allotments.

Any farm with an allotment of less than 25 acres would be exempt from quotas if its feed grain acreage did not exceed either its base acreage or 25 acres, unless the operator elected to be subject to quotas. Such an exempt farm would also be exempt from the mandatory diversion provisions of the bill and would not be entitled to price support. If the operator did not elect to be subject to quotas, but lost his exemption by exceeding either (A) the base acreage or (B) 25 acres, the smaller of (A) or (B) would be considered as the farm acreage allotment for the purpose of computing marketing penalties.

To become effective, marketing quotas would have to be approved by two-thirds of the farmers voting in a referendum.

The marketing penalty for exceeding acreage allotments would be 65 percent of the parity price of the particular feed grain involved as of May 1, multiplied by the farm marketing excess. In the case of farms producing more than one feed grain, the penalty would be assessed on the theory that the feed grains constituting the marketing excess are those which result in the highest penalty.

The Secretary could permit substitution of wheat and feed grain acreage.

Any farm producing feed grains, other than one with a new farm allotment, would be required to divert from production an acreage equal to that by which its base acreage exceeded its allotment. The penalty for producing any crop, other than one permitted by the Secretary as being nonsurplus or not impairing the program, on such acreage would be 65 percent of the May 1 parity price of the principal feed grain produced in the county, multiplied by the normal yield for such feed grain for each acre in violation of this provision.

The Secretary may exempt farms in deficit areas from quotas if (1) quotas would reduce the gross income of producers in the area by 25 percent, (2) exemption would not impair the program, and (3) the feed grain acreage on the farm does not exceed its base acreage. Such an exempt farm would be liable for marketing penalties on any excess over its base acreage, would not be subject to the mandatory diversion provisions of the bill, and would not be entitled to price support.

A limited exemption is provided for malting barely where necessary to provide a sufficient supply.

A limited exemption is also provided for feed grains for silage.

The support level for corn would be not less than 65, nor more than 90 percent of parity if marketing quotas were not disapproved (instead of such level from 50 to 90 percent of parity as will not result in increasing CCC stocks, as at present in the absence of a diversion program). If marketing quotas were disapproved, price support could not exceed 50 percent of parity. Price support for barely and grain sorghums would, as at present, be fixed at fair levels in relation to corn. Price support for oats and rye would no longer be mandatory, but could be fixed at any level from 0 to 90 percent of parity.

EXPLANATION OF TITLE II—COTTON

Title II extends the cotton domestic allotment program until such time as the Secretary of Agriculture determines that supplies are at reasonable levels. This program was provided for by the Agricultural Act of 1964 for the 1964 and 1965 crops. Under it each farm is given a domestic allotment representing its share of the cotton required for domestic consumption (about two-thirds of the farm acreage allotment). No farm domestic allotment is less than the smaller of 15 acres or the farm acreage allotment. Farms complying with their domestic allotment are entitled to price support at up to 15 percent above the basic level of support.

JUNE 10, 1965.

[S. 2111, 89th Cong., 1st sess.]

A BILL To provide a domestic parity marketing certificate program for rice

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Agricultural Adjustment Act of 1938, as amended, is amended by striking out sections 380a through 380p and substituting the following:

"SEC. 380a. The movement of rice from producer to consumer is preponderantly in interstate and foreign commerce, and the small quantity of rice which does not move in interstate or foreign commerce affects such commerce. Unreasonably low prices of rice to producers impair their purchasing power for non-agricultural products and place them in a position of serious disparity with other industrial groups. The conditions affecting the production of rice are such that without Federal assistance, producers cannot effectively prevent disastrously low prices for rice. It is necessary in order to assist rice producers in obtaining fair prices, to regulate the price of rice in the manner provided in this subtitle.

"RICE MARKETING ALLOCATION

"SEC. 380b. If, beginning with the 1966 crop, marketing quotas are in effect for rice for any crop, a rice marketing allocation program for the marketing year for such crop shall be in effect as provided in this subtitle. Whenever a rice marketing allocation program is in effect for any marketing year, the Secretary shall determine (1) the rice marketing allocation for such year which shall be the amount of rice which he estimates will be used for domestic consumption for all purposes during such marketing year, and (2) the national allocation percentage which shall be the percentage which the national marketing allocation is of the amount of rice determined by multiplying the national acreage allotment by the projected national yield. Each producer of rice shall receive a separate rice marketing allocation for each State in which he produces rice determined by multiplying his share in rice acreage allotments in such State by his projected yield of rice, as determined by the Secretary, and by multiplying the resulting number of hundredweights by the allocation percentages established by the Secretary within the ranges prescribed in the schedule below:

"Estimated production on allotted acres (allotment multiplied by projected yield):		Allocation percentage
First 500 hundredweights and less----		Not less than national allocation percentage or more than 55 per centum.
501 hundredweights to 1,500 hundred- weights, inclusive.		Not less than national allocation percentage or more than 45 per centum.
More than 1,500 hundredweights-----		National allocation percentage.

The rice marketing certificates issued to producers as a result of using allocation percentages in excess of the national allocation percentage shall be additional to the rice marketing allocation as determined under section 380b(1). The acreage allotment referred to in this section shall be the acreage allotment established under section 353(b) before any of such allotment is voluntarily surrendered or such allotment is increased by any reapportioned allotment as provided in section 353(e) of this Act.

"MARKETING CERTIFICATES

"SEC. 380c. (a) The Secretary shall provide for the issuance of rice marketing certificates for each marketing year for which a rice marketing allocation program is in effect for the purpose of enabling producers on any farm with respect to which certificates are issued to receive, in addition to the other proceeds from

the sale of rice, an amount equal to the value of such certificates. The rice marketing certificates issued to any producer for any marketing year in any State shall be in the amount of the producer's rice marketing allocation for such year, but not to exceed the actual acreage of rice planted by the producer in such State for harvest in the calendar year in which the marketing year begins multiplied by the producer's projected yield as determined by the Secretary.

"(b) No producer shall be eligible to receive rice marketing certificates with respect to any farm for any marketing year in which a marketing quota penalty is assessed for any commodity on such farm; but this subsection shall not apply to any producer who did not exceed his share of any acreage allotment or marketing quota for the farm and who in good faith undertook to produce rice on the farm in the belief that no marketing quota penalties had been, or would be, assessed for any commodity produced on such farm in such marketing year.

"(c) The face value per hundredweight of marketing certificates shall be equal to the amount by which the level of price support for rice accompanied by certificates (certificate rice) exceeds the level of price support for rice not accompanied by certificates (noncertificate rice).

"(d) Marketing certificates and transfers thereof shall be represented by such documents, marketing cards, records, accounts, certifications, or other statements or forms as the Secretary may prescribe.

"(e) In any case in which the provisions of this Act prohibit the issuance of rice marketing certificates for failure of a producer to comply fully with the terms and conditions of the program formulated under this subtitle, the Secretary may, nevertheless, issue certificates in such amount as he determines to be equitable in relation to the gravity of the violation.

"MARKETING RESTRICTIONS

"SEC. 380d. (a) Marketing certificates shall be transferable only in accordance with regulations prescribed by the Secretary. Any unused certificates legally held by any person shall be purchased by Commodity Credit Corporation if tendered to the Corporation for purchase in accordance with regulations prescribed by the Secretary.

"(b) All persons engaged in the processing of rice in the United States shall, at such times as the Secretary shall prescribe, acquire marketing certificates equivalent to the number of hundredweights of rough rice purchased or imported by them during any marketing year for which a rice marketing allocation program is in effect. The requirements of this subsection shall not be applicable to rice which is both produced and processed in Puerto Rico or in any State for which no acreage allotment is established under section 353 of this Act. Marketing certificates shall be valid to cover only rice purchased during the marketing year with respect to which they are issued, and after being once used to cover a purchase shall be void and shall be disposed of in accordance with regulations prescribed by the Secretary. Notwithstanding the foregoing provisions hereof, the Secretary may require marketing certificates issued for any marketing year to be acquired to cover purchases made on or after the date during the calendar year in which rice harvested in such calendar year begins to be marketed as determined by the Secretary even though such rice is marketed prior to the beginning of the marketing year, and marketing certificates for such marketing year shall be valid to cover purchases made on or after the date so determined by the Secretary.

"(c) Upon the sale or exportation of any rough rice with respect to which certificates were acquired the Commodity Credit Corporation shall pay to the seller or exporter an amount equal to the face value at the time of such sale of the certificates for such quantity of rough rice.

"(d) Upon the exportation from the United States of any processed rice with respect to which certificates were acquired, the Commodity Credit Corporation shall pay to the exporter an amount equal to the value of the certificates for the rough rice equivalent of such processed rice.

"(e) Upon the giving of a bond or other undertaking satisfactory to the Secretary to secure the purchase of and payment for such marketing certificates as may be required, and subject to such regulations as the Secretary may prescribe, any processor of rice may be permitted to defer his acquisition of marketing certificates beyond the time at which they would otherwise be required to be acquired.

“IMPORT RESTRICTIONS

“SEC. 380e. Each person who, on or after the beginning of the marketing year for each marketing year for which a rice marketing allocation program is in effect, imports processed rice into the United States shall acquire marketing certificates covering the rough rice equivalent of such processed rice.

“ASSISTANCE IN PURCHASE AND SALE OF MARKETING CERTIFICATES

“SEC. 380f. For the purpose of facilitating the purchase and sale of marketing certificates, the Commodity Credit Corporation is authorized to issue, buy, and sell marketing certificates in accordance with regulations prescribed by the Secretary. Such regulations may authorize the Corporation to issue and sell certificates in excess of the quantity of certificates which it purchases.

“AUTHORITY TO FACILITATE TRANSITION

“SEC. 380g. (a) Notwithstanding the provisions of sections 380d and 380e, the certificates required to be acquired by processors or importers for rice purchased or imported by them, and the amounts to be paid upon the sale or exportation of rice, during the marketing years applicable to the 1966, 1967, and 1968 crops shall be the following percentages of the quantities and amounts prescribed by sections 380d and 380e :

	Per centum
“For the marketing year applicable to the 1966 crop_____	25
For the marketing year applicable to the 1967 crop_____	50
For the marketing year applicable to the 1968 crop_____	75

“(b) The Secretary is authorized to take such further action as he determines to be necessary to facilitate the transition from the program currently in effect to the program provided for in this subtitle. Notwithstanding any other provision of this subtitle, such authority shall include, but shall not be limited to, the authority to exempt all or a portion of the rice in rough or processed form in the channels of trade on the effective date of the program under this subtitle for each of the marketing years beginning in 1966, 1967, and 1968 from the marketing restrictions in subsection (b) of section 380d, or to sell certificates to processors covering such rice at such prices as the Secretary may determine, or to require the purchase of certificates for rough rice owned by processors or processed rice owned by processors, importers, or others on those dates. Any certificates so sold shall be issued by the Commodity Credit Corporation.

“REPORTS AND RECORDS

“SEC. 380h. This section shall apply to processors, exporters, importers, and warehousemen of rice in rough or processed form and all persons purchasing, selling, or otherwise dealing in rice marketing certificates. Any such person shall, from time to time on request of the Secretary, report to the Secretary such information and keep such records as the Secretary finds to be necessary to enable him to carry out the provisions of this subtitle. Such information shall be reported and such records shall be kept in such manner as the Secretary shall prescribe. For the purpose of ascertaining the correctness of any report made or record kept, or of obtaining information required to be furnished in any report, but not so furnished, the Secretary is hereby authorized to examine such books, papers, records, accounts, correspondence, contracts, documents, and memorandums as he has reason to believe are relevant and are within the control of such person.

“REGULATIONS

“SEC. 380i. The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this subtitle, including but not limited to regulations governing the acquisition, disposition, or handling of marketing certificates.

“DEFINITIONS

“SEC. 380j. For the purposes of this subtitle.

“(a) ‘processing of rice’ means subjecting rough rice for the first time to any process which removes the husk or hull from the rice.

“(b) ‘processed rice’ means rice which has been processed.

“(c) ‘United States’ means the several States, the District of Columbia, and the Commonwealth of Puerto Rico.

“(d) ‘rough rice equivalent’ means the quantity of rough rice normally used, as determined by the Secretary of Agriculture, in the production of a particular quantity and type of processed rice, with appropriate adjustments for broken kernels, as determined by the Secretary.

“(e) ‘import’ means to enter, or withdraw from warehouse, for consumption.”

SEC. 2. Section 379i of the Agricultural Adjustment Act of 1938, as amended, is amended (i) by inserting in subsection (a) after the words “subsection (b) of section 379(d)” the following: “, subsection (b) of section 380d, or section 380e”, (ii) by inserting in subsection (b) after the words “this subtitle” the words “or subtitle E”, after the words “by section 379h” the words “and section 380h”, and immediately preceding the words “marketing certificates” the words “wheat or rice” and (iii) by changing in subsection (d) the words “any marketing certificate” to read “any wheat or rice marketing certificate”.

SEC. 3. The Agricultural Act of 1949, as amended, is amended as follows:

(1) by inserting after section 107 the following new section:

“SEC. 108. Notwithstanding the provisions of section 101 of this Act, the level of price support for the crops of rice planted for harvest in the calendar year 1966 and subsequent years shall be as follows:

“(1) If a rice marketing allocation program is in effect, price support for rice accompanied by marketing certificates shall be at a level equal to the full parity price therefor; and price support for rice not accompanied by marketing certificates shall be at such level, not more than the parity price therefor and not less than the higher of (i) 50 per centum of the parity price therefor, or (ii) the estimated United States farm price equivalent of the average world market price for rice during the marketing year for which the support price is being determined, as the Secretary determines will provide orderly marketing of rice during the harvest season and will retain an adequate share of the world market for United States rice producers, taking into consideration the factors specified in section 401(b) of this Act and the price of rice in world markets.

“(2) Price support shall be made available only to cooperators.

“(3) The level of price support for any crop of rice for which a rice marketing allocation program is not in effect shall be as provided in section 101.

“(4) A ‘cooperator’ with respect to any crop of rice produced on a farm shall be a producer who does not knowingly exceed (i) his share of the farm acreage allotment for rice on the farm or (ii) except as the Secretary may by regulation prescribe, his share of the farm acreage allotment for rice on any other farm on which the producer shares in the production of rice. If marketing quotas are not in effect for the crop of rice, a ‘cooperator’ with respect to any crop of rice produced on a farm shall be a producer who does not knowingly exceed his share of the farm acreage allotment for rice.”

(2) By changing the period at the end of the third sentence in section 407 to a colon and adding the following: “*Provided further*, That, if a rice marketing allocation program is in effect, the current support price for rice shall be the support price for rice not accompanied by marketing certificates.”

SEC. 4. Section 353 of the Agricultural Adjustment Act of 1938, as amended, is amended by adding at the end thereof a new subsection (g) as follows:

“(g) If, on or after January 1, 1965, the owner or landlord of any farm in a State or administrative area in which rice acreage allotments are determined primarily on the basis of the past production of rice on the farm evicts any tenant or sharecropper on his farm without just cause, or requires that a tenant or sharecropper pay, in addition to the rental customarily paid in the community for similar land for rice production, a sum of money or any thing or service of value, or forces a tenant or sharecropper by coercion, subterfuge, or in any manner whatsoever to vacate the farm of the owner or landlord or abandon the crop of rice produced by the tenant or sharecropper on such farm without just cause, as determined in accordance with regulations issued by the Secretary, the acreage allotment next established for the farm and for each succeeding year shall be reduced as provided in such regulations by not more than the percentage by which the displaced tenant or sharecropper formerly shared in the crop: *Provided*, That if the farm acreage allotment for a crop year has been established at the time the determination under this subsection is made but rice for such

year has not been planted, the rice farm acreage allotment for such year and for each succeeding year shall be reduced as provided herein. The acreage by which an allotment already established is reduced under the foregoing proviso shall be reapportioned under subsection (e) as though it had been released under the provisions of that subsection, and shall be regarded as having been planted in the State and county, but not on the farm for which the allotment was reduced nor on the farm to which it was reapportioned. Notice of any revision of an acreage allotment and marketing quota under this subsection shall be mailed as provided in section 362 and any determination made under this subsection shall be subject to review under sections 363 through 368.

SEC. 5. Effective beginning with the crop planted for harvest in 1966, section 301(b) of the Agricultural Adjustment Act of 1938, as amended, is amended as follows:

(1) Paragraph (8) is amended by inserting "(A)" after "(8)" and adding the following new subparagraph:

"(B) 'Projected national yield' as applied to any crop of rice shall be determined on the basis of the national yield per harvested acre of the commodity during each of the five calendar years immediately preceding the year in which such projected national yield is determined, adjusted for abnormal weather conditions affecting such yield, for trends in yields, and for any significant changes in production practices."

(2) Paragraph (13) is amended by adding the following new subparagraphs:

"(J) 'Projected county yield' for any crop of rice shall be determined on the basis of the yield per harvested acre of such crop in the county during each of the five calendar years immediately preceding the year in which such projected county yield is determined, adjusted for abnormal weather conditions affecting such yield, for trends in yields, and for any significant changes in production practices."

"(K) 'Projected farm yield' for any crop of rice shall be determined on the basis of the yield per harvested acre of such crop on the farm during each of the three calendar years immediately preceding the year in which such projected farm yield is determined, adjusted for abnormal weather conditions affecting such yield, for trends in yields, and for any significant changes in production practices."

"(L) 'Projected yield' for any produced in any State shall be determined for any crop of rice on the basis of (i) the yield per acre of rice harvested in such State by such producer during each of the three calendar years immediately preceding the year in which such projected yield is determined adjusted for abnormal weather conditions affecting such yield, for trends in yields, and for any significant changes in production practices; and (ii) the projected farm yields of the farms on which he will produce rice of such crop."

(3) Paragraph (9) is amended to read as follows:

"(9) 'Normal production' as applied to any number of acres of rice means the projected farm yield times such number of acres and, as applied to any number of acres of cotton, means the normal yield for the farms times such number of acres."

STAFF EXPLANATION OF S. 2111

This bill provides for a marketing certificate program for rice generally similar in framework to that contained in S. 1702, but differing from S. 1702 in the following respects:

- (1) It would be permanent.
- (2) It provides price support at full parity for the domestic portion of the crop (including seed).
- (3) It provides price support at not less than the higher of 50 percent of parity or the world price for the balance of the crop.
- (4) It retains the present method of determining and apportioning marketing quotas and allotments, including National, State, and county minimum allotments.
- (5) It provides a separate rice marketing allocation for each producer for each State, based on his projected yield.
- (6) It permits any rice producer to receive certificates if he does not participate in an acreage allotment violation.

(7) It requires processors to obtain certificates on rough rice purchased or imported by them (instead of the rough rice equivalent of processed rice sold by them), subject to refunds for sales or exportations.

(8) Exemption of rice to be donated, processed for use on the farm, produced and processed by and for a State agency, or processed for noncommercial uses would not be permitted.

(9) Refunds on rice sold or exported would be in cash only (not in kind).

(10) It makes it clear that the Secretary could mitigate any prohibition against issuance of certificates to a program violator.

(11) CCC could not charge administrative costs in addition to the certificate costs.

(12) It provides for a 4-year transition to the new program insofar as processors are concerned.

(13) It contains a clearer definition of "processing."

(14) It modifies the landlord-tenant provisions of S. 1702 to remove retroactive effect prior to 1965, provide a maximum penalty, provide for reapportionment of allotment reduction, and provide for appeals to review committee and court.

Under this bill a marketing certificate program would be in effect for rice every year that marketing quotas were in effect, beginning with the 1966 crop. The existing law governing marketing quotas would continue in effect.

A producer would receive a rice marketing allocation on which marketing certificates would be issued equal to the number of hundredweights obtained by multiplying the estimated production on his share of the allotted acres by the percentage estimated by the Secretary to be the percentage of the rice crop which will be used in the United States during the marketing year. Provision is made for issuing additional certificates to be financed by Commodity Credit Corporation on the first 1,500 hundredweight of each farmer's production.

The marketing certificates would have a value per hundredweight equal to the difference between the price support on certificate rice and noncertificate rice.

Marketing certificates would be required to cover all rice purchased by processors and all processed rice imported into the United States, but the value of the certificates would be refunded on all rough rice sold and all processed rice exported from the United States.

Commodity Credit Corporation would be authorized to buy and sell marketing certificates.

During the first year the program was effective processors and importers would be required to purchase certificates for only one quarter of the rice purchased or imported by them. During the next year they would purchase certificates for one-half; and during the third year for three-fourths. This would prevent too precipitous an increase in the price of processed rice. The Secretary would be authorized to take such additional action as he determines would be necessary to facilitate the transition from the program currently in effect to the marketing certificate program.

Price support—

(i) for rice with marketing certificates would be 100 percent of parity;

(ii) for noncertificate rice would be at such level, not in excess of parity, and not less than the higher of 50 percent of parity or the world price, as the Secretary determines will provide orderly marketing of rice and retain an adequate share of the world market, taking into consideration the price of rice in world markets and other factors.

The minimum price for sales of rice from Commodity Credit Corporation stocks would be 105 percent of the noncertificate rate, plus reasonable carrying charges.

The bill would also provide authority to reduce the rice acreage allotment for any farm if the farmowner or landlord evicts or otherwise mistreats a rice tenant or sharecropper on the farm.

JUNE 10, 1965.

The CHAIRMAN. I wish to further place in the record at this point a summary of costs, and other data on feed grains programs, and also of the utilization of those commodities; and another table indicating the price supports and type of programs that we have had in corn and other feed grains since 1961, together with the actual costs up to 1964 and the estimated costs for 1965.

Then we have the feed grains situation in another form indicating on a commodity basis, the acreage, the production, yield and other data that may be of importance and of help to this committee. The same data will be inserted on the cotton program, wheat program, the rice program, and the dairy farm program.

(The data referred to above are as follows:)

FEED GRAIN PROGRAM SITUATION (TOTAL CORN, SORGHUM GRAIN, OATS, BARLEY)

Acreage, production, carry-in

Year	Acreage (million acres)	Production (million tons)	Carryin (million tons)
1961.....	106.3	140.6	84.7
1962.....	103.3	142.9	71.8
1963.....	107.4	156.4	63.9
1964.....	100.2	136.9	68.7
1965.....			56.0

Utilization

[Million tons]

Year	Livestock feed	Food and industrial	Seed	Exports	Total
1961.....	123.2	11.4	2.1	17.3	154.0
1962.....	120.5	11.6	2.1	16.8	151.0
1963.....	119.3	12.1	1.9	18.7	152.0
1964.....	117.4	12.2	1.8	18.7	150.1

Price supports and type program

Year	Supports for corn ¹	Type program
1961.....	\$1.20 per bushel.....	Required 20 percent; payments at 50 percent of normal production, permissible additional 20 percent; payments at 60 percent of normal production.
1962.....	do.....	Required 20 percent; payments at 50 percent, permissible additional 20 percent; payments at 60 percent of normal production.
1963.....	\$1.07 loan, 18 cents payment per bushel.	Required 20 percent; payments at 20 percent of normal production, permissible additional 20 percent; payments at 50 percent of normal production.
1964.....	\$1.10 loan, 15 cents payment per bushel.	Required 20 percent; payments at 20 percent of normal production permissible, additional 30 percent; if more than 20 percent but less than 40 percent, payment rate at 50 percent on excess of 20 percent reduction; if 40 percent or more diverted, payment rate at 50 percent on all acreage diverted.
1965.....	\$1.05 loan, 20 cents payment per bushel.	Do.

¹ Other grains at comparable levels.

Program costs

[In millions of dollars]

Fiscal year	Price sup- ports and related programs	Direct payments	Public Law 480	Total
1961.....	476.2	333.2	146.3	955.7
1962.....	737.2	803.0	157.3	1,697.5
1963.....	383.9	677.3	88.5	1,149.7
1964.....	270.9	1,028.5	95.8	1,395.2
1965 ¹	231.3	1,197.0	69.6	1,497.9

¹ Estimated by Department.

1. Acreage, yield, production, carry-in

Year	Acreage (millions of acres)	Yield (millions of bushels)	Production (millions of bushels)	Carry-in (millions of bushels)
Corn				
1961-----	58,449	62.0	3,626	2,008
1962-----	56,609	64.2	3,637	1,640
1963-----	60,549	67.6	4,092	1,346
1964-----	57,142	62.1	3,549	1,510
1965-----				1,125
1961-65-----				883
Sorghum grain				
1961-----	10,957	43.8	480	702
1962-----	11,536	44.2	510	661
1963-----	13,582	43.3	588	655
1964-----	11,930	41.1	490	649
1965-----				600
1961-65-----				102
Oats				
1961-----	23,994	42.2	1,011	325
1962-----	22,675	45.0	1,020	277
1963-----	21,683	45.2	979	274
1964-----	20,419	43.2	882	315
1965-----				275
1961-65-----				50
Barley				
1961-----	12,946	30.6	396	153
1962-----	12,430	35.1	436	124
1963-----	11,566	35.1	406	147
1964-----	10,670	37.8	403	134
1965-----				120
1961-65-----				33

COTTON PROGRAM SITUATION

Acreage, yield, production, carry-in

Crop year	Acreage (thousand acres)	Yield (pounds)	Production (million bales)	Carry-in (million bales)
1962-----	15,569	457	14.7	11.0
1963-----	14,212	517	15.0	12.1
1964-----	14,060	517	15.0	13.4

Utilization

(In million of bales)

Crop year	Domestic	Exports
1962-----	8.3	3.4
1963-----	8.5	5.7
1964-----	9.3	4.5

Price supports and type program

Crop year	Price support	Type program
1962.....	\$32.47 M 1''.....	16,000,000-acre national allotment.
1963.....	\$32.47 M 1''.....	Do.
1964.....	\$30.00 M 1'', 3.5 cents domestic allotment payment.	16,000,000-acre national allotment, domestic allotment plan, payment to mills 6.5 cents.

Program costs

[In millions of dollars]

Fiscal year	Price supports and related programs	Equalization payments ¹	Public Law 480	Total
1962.....	187.2	-----	201.5	388.7
1963.....	171.9	-----	213.9	385.8
1964.....	314.8	62.6	170.3	485.1
1965 ²	219.5	473.5	167.5	860.5

¹ Mill payments.
² Estimated by Department.

WHEAT PROGRAM SITUATION

Acreage, yield, production, carry-in

Year	Acreage harvested	Yield per acre	Production	Carry-in
	<i>Thousand acres</i>	<i>Bushels</i>	<i>Million bushels</i>	<i>Million bushels</i>
1962-63.....	43,541	25.1	1,094	1,322
1963-64.....	45,209	25.3	1,142	1,195
1964-65.....	49,170	26.2	1,290	901

Utilization

Year	Domestic	Exports
1962-63.....	584	637
1963-64.....	581	855
1964-65.....	620	671

Price supports and type program

Year	Price supports	Type program
1962-63.....	\$2 per bushel.....	55,000,000 acre allotment, required 10 percent diversion, additional 30 percent permissible for payments.
1963-64.....	\$1.82 per bushel; \$0.18 payment.....	55,000,000-acre allotment, required 20 percent diversion, additional 30 percent permissible for payments.
1964-65.....	\$1.30 per bushel; \$0.70 domestic certificates; \$0.25 export certificate.	Certificate program 49,500,000 acres, required diversion 11.1 percent, up to 20 percent all with payments.

Program costs

[In millions of dollars]

Fiscal year	Price sup- ports and related programs	Payments	Public Law 480	Inter- national wheat	Total
Fiscal year 1963.....	117.2	268.6	1,372.2	74.2	1,832.2
Fiscal year 1964.....	239.5	193.9	1,276.3	125.8	1,835.5
Fiscal year 1965 ¹	218.6	33.0	1,050.7	28.9	1,331.2

¹ Estimated by Department.

RICE PROGRAM SITUATION

Acreage, yield, production, carry-in

Crop year beginning Aug. 1	Acreage harvested	Yield	Production	Carry-in
	<i>Thousand acres</i>	<i>Pounds</i>	<i>Thousand hundredweight</i>	<i>Million hundredweight</i>
1963.....	1,771.6	3,967	70,296	7.7
1964.....	1,786.0	4,095	73,140	7.5

Utilization

[Million hundredweight]

Year	Domestic		
	Total	Food	Other
1963.....	29.1	22.9	6.2
1964.....	29.5	23.3	6.2

Price supports and type program

Year	Price supports	Type program
1963.....	\$4.71	Mandatory allotment 1,800,000 acres.
1964.....	4.71	Do.
1965.....	4.50	Do.

Program costs

[Millions of dollars]

Fiscal year	Price supports and related programs	Public Law 480	Total
1963.....	36.5	123.4	159.9
1964.....	53.9	125.8	179.7
1965 ¹	49.5	113.5	163.0

¹ Estimate by Department.

DAIRY PROGRAM SITUATION

Number of cows milked, production per cow, total production

Year	Milk cows on farms	Annual milk per cow	Annual milk production
	Thousands	pounds	Million pounds
1962.....	17, 086	7, 370	125, 927
1963.....	16, 534	7, 561	125, 009
1964.....	16, 065	7, 880	126, 598
1965.....			

Utilization

[Million pounds]

Year	Consumed on farms	Fluid uses	Creamery butter	Cheese	Dry milk	Other
1962.....	7, 673	53, 590	33, 054	14, 341	632	9, 058
1963.....	7, 027	54, 777	30, 743	14, 809	673	9, 953
1964.....	6, 470	55, 509	31, 009	15, 512	678	10, 950
1965.....						

Price supports and program

Year	Price supports, manufactured milk	Program
1962.....	3. 11	No program requirement.
1963.....	3. 14	Do.
1964.....	3. 15	Do.
1965.....	3. 24	Do.

Program costs

[Millions of dollars]

	Price supports and related programs	Special school milk	Public Law 480	Total
Fiscal year:				
1962.....	324. 0	89. 7	16. 7	430. 4
1963.....	431. 4	94. 1	39. 1	564. 6
1964.....	599. 1	99. 8	47. 6	746. 5
1965 ¹	288. 7	99. 3	20. 1	408. 1

¹ Estimated by Department.

The CHAIRMAN. Now, we have before us today the distinguished Secretary of Agriculture, who has been with us since 1961.

I wish to say at the outset that I realize that Mr. Freeman has a very difficult job and he has made every effort to try to get the farmers and the consumers together, and he has done a good job.

Today we will consider the so-called administration bill. I wish to say that some of us on this committee, are not in full accord with the administration bill—as a matter of fact, other bills have been introduced, and I presume that before these hearings end more legislation on the subject will be introduced. You know the farm program has worked very well in the past. It has meant an abundance of food, but what worries some of us is the growing costs of these programs and the

huge surplus that we have accumulated, even in the face of the many programs that we put on the statute books with the idea of decreasing surpluses.

Now, the testimony that we hope to take will go on from today until, I believe, through June 29. As a matter of fact, I was successful yesterday in obtaining unanimous consent to sit during sessions of Congress from today on through the 29th of June. We will make an effort to complete hearings by that time.

Now, I asked the Secretary to be the first witness and to have present at all times somebody from his office in order to keep notes and to keep abreast of the testimony we produce. I am very hopeful, Mr. Secretary, that after we get through these hearings and the committee begins consideration that we may have the privilege of recalling you.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And we may be a little more specific and sharper in asking questions in order to keep agriculture viable.

Senator JORDAN. Mr. Chairman, before we start with the distinguished Secretary, may I perform a very pleasant task here and introduce a young lady who is an actual princess of the Grange.

The CHAIRMAN. Surely. I was fortunate to meet her, but a lot of other folks have not.

Senator JORDAN. This is Miss Sandy Olive, of Apex, N.C. She is the national princess of the Grange. I have always had a great deal of admiration for that organization, but I am beginning to think they really know how to pick their women.

The CHAIRMAN. It is a shame, Senator, that we don't have photographers here to take that beautiful sight that we are now seeing.

Senator JORDAN. You are speaking of the princess?

The CHAIRMAN. Yes, sir.

Senator JORDAN. I did want you to see this beautiful young lady. She is just a sample of the kind of girls we grow in North Carolina. [Applause.]

Senator JORDAN. And this young man here, Mr. Graham, will accompany her here.

The CHAIRMAN. All right, Mr. Secretary, you may proceed.

Now, Mr. Secretary, I notice you have a prepared statement. You wish to go through it without interruption, or would you mind interruptions as we go along?

STATEMENT OF HON. ORVILLE L. FREEMAN, SECRETARY OF AGRICULTURE

Secretary FREEMAN. Not at all. Whatever you and the committee wish to do. I will be happy to respond at any time, or wait, whichever you prefer.

Mr. Chairman, and members of the committee, this is the fifth year that this committee has given me the privilege and opportunity to appear before it and outline administration proposals for agriculture. I am grateful once again for the opportunity to be the leadoff witness and to outline for the committee the proposed Food and Agricultural Act of 1965, S. 1702.

GENERAL

Might I say, Mr. Chairman, that this being the fifth time and our having worked together now for over 4 years, I thought it might be timely to outline as briefly as I can what has taken place during that period and in a sense as we testify to specific titles of this legislation, to background that testimony in terms of previous actions taken, progress made, lessons learned, if you will, and to more or less give a kind of "state of the Union message" here, Mr. Chairman, where agriculture is concerned. That is the reason the statement is somewhat longer than I have usually delivered to the committee, but I believe such a summary and evaluation for what it is worth to this committee will be useful; at least I hope so.

This bill seeks to continue the progress which its predecessors since 1960 have initiated in our food, agriculture, and rural economy. It seeks to continue those programs which have met the tests of strengthening farm income, and it proposes to augment these flexible commodity programs with a long-range land policy which will contribute further to lower farm program costs and to the constructive channeling of needed adjustments in the rural economy.

Let me review briefly with you some of the milestones of progress we have passed since 1960:

(1) Farm income has increased: Gross income was up \$4 billion last year over 1960—and realized net income continued at a level of about \$900 million above 1960 for the fourth straight year.

(2) Grain surpluses have been markedly reduced: Feed grain carryovers are perhaps half what they would have been without the voluntary programs of the past 4 years.

(3) Consumers have been provided with assured abundance at an even bigger bargain than before—now only 18.5 percent of the average family's take-home pay, down from 20 percent in 1960.

(4) Exports of farm products have been boosted to their highest level in history—more than \$6 billion in the last marketing year—and our estimates now point toward a second \$6 billion a year for farm exports.

(5) Progress in making use of our abundance has been stepped up sharply—we are better able to assure the American people of access to our food abundance. An expanding food stamp program will reach over a million persons in some 130 communities and areas, and 48 States and 2,000 counties and cities—a record number—are participating in the direct food distribution program. In addition, the school lunch program is now reaching over 17 million schoolchildren a day; and finally,

(6) There has been set into motion a dynamic effort to achieve President Johnson's goal of parity of opportunity for rural America—through rural development.

These accomplishments—while they set the dimension of our goals as much as they describe our achievements—took place with the help of new programs sparked by this committee and enacted by the Congress in a period of a little over 4 years.

Four years ago when I first appeared before this committee, the Congress and the administration faced a number of real and serious crises:

There was a crisis in farm income, for the trend since 1952 had been a declining trend. There was nothing to prevent further declines, and, in fact, there were those who advocated policies which would cause sharp and devastating drops in farm income.

There was a crisis in commodity surpluses. Wheat stocks were at a record level of 1.4 billion bushels, and feed grain stocks were a record 85 million tons. Unless action was taken, there would not have been storage space for the 1961 crop.

My main concern when I first came here was that we did not have storage space for grain then in process of being grown, and, frankly, I had nightmares of a new Secretary of Agriculture with grain spilled all over the ground all over this country, and that, might I say, was only 4 years ago.

There was also a crisis in taxpayer costs, for while the legislation on the books then would assure that the downward trend in farm income would continue, it also assured that storage costs would continue to increase.

There was also a crisis of opportunity in rural America, for the families in rural areas—both farmers and nonfarmers—were face to face with problems which no farm commodity program could touch.

In 4 years we have not solved all of the problems which created the need for action, but the actions we have taken have reversed some of the most damaging trends. In the process, we have relearned some old lessons. And, I hope, we have gained a better understanding of the nature of the long-term challenge in agriculture and rural America.

We have learned as we did 30 years ago that commodity programs geared to current conditions in agriculture provide the most realistic framework within which a free and progressive family farm system can be maintained—and the free flow of abundance to an increasingly urban nation can continue undiminished.

We have learned to distinguish between the programs which strengthen commercial family-farm agriculture and those programs which strengthen the rural community's ability to combat poverty and to provide a broader range of job and income opportunities.

We have also learned that we must be willing to change. Perhaps the one most singular characteristic of the age in which we live is change. Fifteen years ago there were 150 million Americans. This year there are 195 million. Fifteen years ago, the jetplane was a novelty. Today, man walks in space. Fifteen years ago, an acre of corn produced 38 bushels on the average. Last year it was 62. The year before it was 67, so we know what we must expect, and every prediction indicates there will be a continuing climb in output per acre for the foreseeable future.

In many ways we are fortunate. Agriculture throughout the world is troubled by a persistent imbalance between the capacity to produce and the ability to use. Most of the world's people suffer because the capacity to produce cannot meet their ability to use. We wrestle, like the man on a diet, with a capacity to produce which exceeds our ability to use. But we do not suffer.

Our efforts to correct that imbalance, while not always as successful as each of us would wish, have produced beneficial results for the farmer, the taxpayer, the consumer, and for the economy as a whole.

Thus, on balance, we can share a quiet satisfaction in the progress which has been made.

PROGRESS IN STRENGTHENING FARM INCOME

Realized net farm income, for each of the past 4 years, has averaged \$900 million higher than in 1960. Realized net income per farm last year was \$3,642, or \$681 above the level in 1960. In this period, record high levels of grain stocks have been reduced to manageable levels; wheat stocks have dropped from 1.4 billion bushels to below 900 million bushels, and feed grain carryover will have decreased from 85 million tons to about 56 million tons by the end of October. This means a total reduction in wheat and feed grain stocks of over 1.5 billion bushels. As a result, we will spend in 1965 for grain storage and handling some \$136 million less than in 1960. On a cumulative basis, the actual dollar savings in storage, handling and other related charges over the past 4 years as a result of the wise and determined actions of this committee amount to \$584 million.

The programs which this committee has played a key role in developing also have enabled the Nation to avoid piling up another 3.7 billion bushels of grain which would have been grown on the land which has been put to conserving uses since 1960.

I want to emphasize, however, that much remains to be done. Despite the progress we have made, farm income is disgracefully low. Fewer than 400,000 farms today provide the families who operate and manage them with anything close to parity of income. By this, I mean approximately the wages of skilled factory workers and a reasonable return on investment. The majority of farmers today do not even earn the equivalent of a national minimum wage.

That is why the proposed legislation now before you directs itself strongly to the need to improve farmer income. In the absence of a fair return in agriculture, we will not in the long run get the people and resources we must have in farming if the abundance we enjoy today is to be assured in the future.

PROGRESS IN SHARING ABUNDANCE

The crisis in commercial agriculture was only one of many challenges which faced the administration and the Congress 4 years ago. In 1960, when the Nation's storehouses were bulging, hundreds of thousands of Americans were going hungry. Millions lived on an inadequate diet largely supplied by a miserly ration of flour, lard, cornmeal, dry milk, and butter distributed directly from Federal surplus stocks. You will recall President Kennedy's first Executive order which doubled both the quality and quantity of this program—adding meat, cheese, dried eggs, beans, and peanut butter to the commodities made available to hungry Americans. Eventually, the commodity list was enlarged to include 15 food items. The number of people participating in the program grew from 4.3 million early in 1961 to a peak 7 million by mid-1963.

In this same period, we began the pilot food stamp program which, at its peak, was extended to 43 areas and reached nearly 400,000 people. This program made it possible for low-income families to buy

coupons with the money they normally would be able to spend for food and receive enough additional coupons to buy the food needed for an adequate diet. This committee, after careful study, acted on President Johnson's strong recommendation to make the program a permanent instrument in the war on poverty. The program will be in operation in 130 areas and reach about 1 million persons by the end of summer. We propose to gradually enlarge it to reach low-income families in all of urban and rural America.

Thus, you have enabled farmers to earn a better return for the abundance they produce while seeking to insure that no American is denied the opportunity for an adequate share of this abundance. These are significant accomplishments.

Equally significant, this committee and the Congress have helped to launch a rural renaissance by recognizing that agricultural policy today is concerned with the rural community as a whole. Agricultural policy must deal with rural affairs, for only by so doing can it effectively serve the needs of the farmer and the Nation. As a result, there has been in the past 4 years a whole new series of congressional actions aimed at the underlying social and economic needs of the rural community.

PROGRESS IN RURAL AMERICA

These needs are enormous. Over the years as the urban areas of the Nation have expanded both in population and in wealth, an opportunity gap has been created between the urban American and the rural American. A child born in rural America may very easily have two strikes against him.

Poverty is twice as likely to be a condition of life for the child in a rural family.

A rural family is twice as likely to be living in substandard, slum housing. One out of four rural houses need major repairs compared to one out of seven in urban areas.

A fourth of all farm homes, and a fifth of rural nonfarm homes, have no running water.

Rural children have, on the average, less chance for a first class education. Rural Americans are nearly 2 years behind urban Americans in educational achievements.

Job opportunities are concentrated in urban areas, unemployment in rural areas, including underemployment, ranges about 15 percent.

Rural children receive one-third less medical attention than urban children.

Rural people have less access to credit for housing, for business expansion, or for public utilities. Nearly 15,000 rural towns have no central water supply. Sewage disposal in many areas is as primitive as any place in the world.

I could go on, but the picture is clear. There is an opportunity gap which, unless it is closed, will continue to award the rural Americans with the status of second-class citizens.

We have begun a mighty effort to close this gap.

In 1961 we launched, beginning with a series of land and people conferences, an intensive rural areas development effort to enlist community leaders in rural areas to help close the gap.

As a result of that effort, rural community development groups are organized in more than 2,100 counties, involving over 100,000 rural leaders. These groups have helped to create some 412,000 new jobs in rural communities, including 40,000 jobs provided by 316 projects financed through the area redevelopment administration. Over 550 rural communities have built or expanded water systems with USDA loans since 1961, and we have been able to provide financial assistance for a variety of other activities—rural housing, small watershed development, rural recreation enterprises, new industrial and agricultural enterprises, and so on.

Housing legislation in 1961 and 1962 broadened the authority of Farmers Home Administration in the USDA to make credit available to all rural Americans. Nonfarm homebuilding is accelerating in rural areas. Special emphasis was given to housing for senior citizens. The Area Redevelopment Act in 1961 made additional resources available to the rural community to help finance industrial and business expansion and to build essential community facilities.

The Food and Agriculture Act of 1962, which I have often described as a new charter for rural America, greatly expanded our rural development tools. The construction of rural water systems, and recreation development on both a community and individual basis, were made possible by new and expanded loan programs. The small watershed program was expanded. Two pilot approaches to planning, and financing, rural development—rural renewal, and resource conservation and development—were provided for in the 1962 legislation.

The same year, Congress also enacted the Manpower Development and Training Act. Next year came the Vocational Education Act of 1963. Both contained authority to provide rural people with the opportunity to gain new and useful skills. More recently the Economic Opportunity Act and other measures to combat poverty have been enacted, and special emphasis has been placed on rural needs.

Over 45,000 rural homes have been built or improved in rural areas through housing loans totaling nearly a half billion dollars in the past 4 years. More than 26,000 landowners during this period have established one or more income-producing recreation enterprises through USDA programs. About 10 percent of these now are a primary source of income. In addition, some 422 recreation projects have been financed by USDA loans, including 104 nonprofit community projects.

In the past 5 months, the Department has made some 8,000 low-income loans totaling \$14 million to help rural Americans enlarge their income opportunities. In addition, 15 loans to rural cooperatives for \$302,000 have been made to help these co-ops provide needed services to low-income families.

Our experience these past 4 years has taught us two important lessons:

With adequate funds and sufficient technical assistance, the rural community can reach out to provide better opportunity for rural Americans. We have shown that rural America has the capacity for growth;

Secondly, we cannot duplicate—and should not try to duplicate—within the U.S. Department of Agriculture all the expertise and services of the rest of the Federal Government such as education, manpower, health, welfare, youth counseling employment programs, and all the rest.

For the Department as a whole, and for the rural areas development effort particularly, this means that we should concentrate on helping other agencies and programs bring their benefits to rural America.

The President, deeply conscious of the full range of needs of rural America, has acted to insure that rural America has equal access to all Federal services. In his message to the Congress on February 4, he directed the USDA to establish a Rural Community Development Service to provide "outreach" so that every program of the Federal Government will, in fact as well as theory, be available to the rural community that seeks such cooperation. The same month I established this RCDS agency, and its new administrator, Robert G. Lewis, is moving swiftly to carry out the President's directive.

Thus, there is underway an ever-enlarging effort to achieve President Johnson's goal of parity of opportunity for rural America. Four years ago, there were many people who said that rural America had little or no potential for growth. The Congress has forged the instruments to give rural America a fighting chance to prove this belief to be wrong.

PARITY OF INCOME FOR AGRICULTURE

The effort to broaden the economic base of rural America must continue. But, as President Johnson sharply and succinctly pointed out in his message to Congress, we must differentiate between the challenge and opportunity in the rural renaissance now underway—and the challenge and opportunity to maintain the strength of commercial agriculture so critically important to the national well-being.

Commercial agriculture is a matter of national concern, not because of any failure, but because of a fantastically succesful productive revolution.

In the immediate years before World War II, farm productivity was increasing only half again as fast as industrial productivity. If every person then had had access to an adequate diet, there would have been no surplus. In the years following World War II, farm productivity has been increasing twice as fast as industrial productivity. We now recognize that we can produce more food than we can consume at home or sell and effectively share abroad.

As President Johnson noted in his letter transmitting the new legislative proposals, if industrial productivity had increased at the same rate as in agriculture, we could have produced the same level of output in 1963 with 8 million fewer people than were actually employed. Instead of 4 million unemployed, there could have been \$12 million; and unemployment benefits would have cost more than \$9 billion instead of about \$3 billion.

These figures provide some understanding of the effects of the output revolution in farming; and they indicate the nature of the adjustment which currently is underway in commercial agriculture.

The fact that fewer than 400,000 farmers earn close to a parity of income means that we must do better for the family farm system which makes it possible for the American people to eat better and at lower real cost than ever before.

Over the past 30 years, the commodity programs which provide price and income support to the farmer while keeping production in

check have proved to be the most sensible instrument for dealing with the output revolution. They have helped to strengthen the family farm system while at the same time they have been effective in keeping food supplies roughly in balance with demand.

The proposed Food and Agriculture Act of 1965 seeks to carry forward these goals—goals which, working together, this administration and the Congress have consistently supported. The proposed legislation provides several new techniques which will give added flexibility and dimension to the farm commodity programs which we seek constantly to improve. They will:

Assist small farmers—whose age, lack of education or physical condition prevents them from shifting to other jobs—through special provisions which will enable them to earn a better income with their present resources;

Enable small farmers with the capacity and desire for growth to acquire the resources they need for an adequate sized family farm operation, and insure that those who seek to earn a decent living in other than farming or who wish to retire will receive fair and just compensation for their assets;

Provide the instrument for long-range adjustments in agricultural resources, recognizing that the need for balancing the supply of farm commodities with the demand will be of long duration;

Encourage greater use of the marketplace to bring a fair return to farmers in domestic and export sales. We would rely less on tax dollars, and we would seek to move away from use of export subsidies.

Before proceeding to discuss each title of the proposed legislation, let me dwell for a moment on a general point related to this proposal. Some who oppose the legislation proposals have sought to describe it as a tax on consumers. It is ironic that many of those who object to the legislation have consistently argued that the farmer should get his return from the marketplace, and the Federal Government should withdraw as an active force. Since S. 1702 would have the effect of removing the Government in large part as an active participant in the market, while at the same time protecting the opportunity of the farmer to obtain a fair return, it would appear that these opponents simply want the farmer to be a weak bargainer in an open market. They really don't believe, it would seem, that every person should have equal opportunity to enjoy the benefits of an open market.

Thus, the argument they are using is both cruel and unfair. The farmer should have equal opportunity to obtain as fair a return as any other bargainer in the marketplace. To do otherwise would be unfair.

But it is doubly cruel to say to the consumer that he is being unfairly affected. In the first place, any increase will be nominal. The farm cost of wheat in a loaf of bread—which has been about 2.6 cents or below for the past 15 years—will be increased about seven-tenths of a cent, and the increase for other wheat products will be in that same proportion. Low-income families, as I have already pointed out, have been receiving a substantially improved diet through the enlarged direct food distribution program and the expanding food stamp program. For example, in the past 11 months, more than 30 million tons of rice have been distributed to low-income families in Puerto Rico. This is about 23 percent of the total amount distributed.

The real cruelty, however, is the implied argument that poverty in one place ought to be reason enough for poverty elsewhere. We can eliminate poverty only by attacking its causes. Spreading it out thin only aggravates the problem, for poverty breeds upon itself like a disease. The massive effort now underway in the war on poverty seeks to raise the educational, economic, and social opportunities of low-income families. In Puerto Rico, for example, the Department has received over 11,000 applications from individuals for loans under the Economic Opportunity Act to help improve their earning capacities. These and the other measures now underway are the best way to wipe out the disease of poverty. We should not foster it by fighting programs which will help provide the farmer with a better opportunity to earn a fair return for his skill, investment, and hard work.

Let me now discuss the proposed legislation in more detail.

Senator AIKEN. You don't mean 30 million tons of rice distributed in 11 months?

Secretary FREEMAN. Puerto Rico has its problems.

The CHAIRMAN. I know it has.

Secretary FREEMAN. And its per capita income is still very low.

The CHAIRMAN. I hate to see such advertisements as we see in the paper.

Secretary FREEMAN. Let me discuss the proposed legislation title by title and in specific detail.

WHEAT

First of all, I will discuss wheat:

Title I of the proposed act would authorize a program basically similar to the one which was enacted last year which prevented a drastic decline in grower incomes and helped us continue reducing the wheat carryover. Wheat stocks on July 1 will be below 900 million bushels—compared with the record 1961 level of 1.4 billion bushels.

The present program expires with the 1965 crop. The alternative to a new program is to fall back on the old legislation which requires a referendum be held by August 1, 1965, to enable farmers to decide whether a marketing quota will apply for the 1966 crop. Farmers would have the same choices as were put before them on May 21, 1963. Approval of marketing quotas would bring into effect a mandatory program with a support level similar to 1965. Disapproval would mean price support at 50 percent of parity—about \$1.25 a bushel for all wheat. It would cause wheat stocks to go up and income down.

Present legislation calls for support of wheat for domestic food uses at between 65 and 90 percent of parity or an average of \$2 nationally. The bill now before this committee would permit the maximum level of price support on wheat used for domestic foods in the United States to be raised to 100 percent of parity, or in the area of \$2.50 a bushel. All wheat would move in the market at the same price—which would reflect a basic loan level related to competitive world prices and the feeding value of wheat. The certificate would be set at the level necessary to bring returns on the domestic share of the crop to 100 percent of parity.

Thus, wheat used for domestic food would bring the farmer in the range of \$2.50 a bushel—compared with \$2 in 1964 and 1965. It is our intention, if Congress grants the authority, to use this legislation

in 1966 to increase producer returns by about \$150 million and to reduce export subsidy costs substantially. Some 60 percent of our wheat sales are abroad, and this program would make it possible to price this part of the crop competitively in world trade, and yet to enable U.S. producers to increase their total returns from the crop.

The CHAIRMAN. Mr. Secretary, at this point will you place in the record data to indicate what you have just said there?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. As I understand it, this year, let us say, the crop will produce about 1,200 million. Is that your last estimate?

Secretary FREEMAN. Yes, I think that is correct.

The CHAIRMAN. Now, as I understand it, assuming that in 1965-66, farmers will produce the same amount of wheat, of that produced, how much is consumed at home.

Secretary FREEMAN. About 500 million bushels.

The CHAIRMAN. 500 million bushels. The farmer would receive for that quantity, \$2.50 per bushel?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And the rest of it virtually world prices?

Secretary FREEMAN. Would move at world prices, virtually, yes.

The CHAIRMAN. Now, if you would put in the record those figures, in other words, following your statement, you indicate that the income will be greater, it might be apropos that you take a few years of the past, normal years, and make a table on these comparisons. I believe it will enhance the value of your statement.

Secretary FREEMAN. Very good, sir.

The CHAIRMAN. So that the reader will have it at hand.

(The information referred to follows:)

Comparison of producer returns under S. 1702 and 1965 wheat program

[In millions of dollars]

	1965 estimate		S. 1702 estimate	
	Unit	Amount	Unit	Amount
Value of production-----	1,283 million bushels, at \$1.35.	1,732	1,270 million bushels, at \$1.35.	1,715
Value of certificates:				
Domestic-----	480 million bushels, at \$0.75.	360	500 million bushels, at \$1.25.	625
Export-----	360 million bushels, at \$0.30.	108		
Diversion payment-----	2.2 million acres, at \$15.95.	35	1.7 million acres, at \$6.90.	29
CAP payment-----		0		26
Total-----		2,235		2,395

Producer returns in prior years

[In millions of dollars] ¹

	1961	1962	1963	1964
A. Value production-----	2,258	2,228	2,116	1,771
B. Value certificates-----	0	0	79	410
C. Diversion payment-----	0	258	163	33
D. Total-----	2,258	2,513	2,358	2,214

¹ Price support payment.

Senator YOUNG. I would like to ask a few questions with reference to wheat.

I disagree, Mr. Secretary, with your statement that wheat farmers are prospering. In spite of better than average crops in the Spring wheat area most wheat farmers are finding themselves in very serious financial difficulties. This is attested to by the increase in bank loans. The local commercial banks and the Federal land banks are doing the biggest business they have ever done. It could hardly be otherwise because the blended price support the farmer now receives for his wheat is only \$1.69 a bushel.

Secretary FREEMAN. For the 1964 crop the estimated return to producers including payments will average out to \$1.72 a bushel. The price guaranteed to a producer who plants his entire allotment is \$1.69.

Senator YOUNG. That was the blended price he received last year. It is \$1.69 for the 1965 crop. This compares with price of \$2 a bushel or more before the referendum defeat and the adoption of the present program. The producer's cost of operation is constantly increasing even though his prices are down. I am wondering what objection, Mr. Secretary, you would have to S. 2025, the bill introduced by myself and others. This would give the farmer, in place of \$1.69 a bushel as is the case now, a blended price of \$2 a bushel. The additional Government cost of such a program would be very little. Even though there would be some additional cost, it must be recognized that if you really want to help keep these wheat farmers solvent, something of this kind is going to have to be done. I am wondering what objections you would have to this program.

Secretary FREEMAN. Well, Senator, there is some real merit in the bill which you have introduced. I would prefer to compare it with what we have now, rather than what is proposed in this bill, and I think what is proposed is superior, although there are some strong points in the legislation which you now call to our attention. My concern with it would be primarily that it would cost several hundred million dollars more than the proposal that is made by the administration, and the return in farm income would not quite be dollar for dollar. In other words, the income return for it is more than matched by the taxpayer costs.

Secondly—

Senator YOUNG. Before you leave this, are you talking about net costs to the Government? It would operate the same as our present program so any increase in cost to the Government, it would seem, would be completely offset by increased income to the farmers. Why would it cost more?

Secretary FREEMAN. It would cost more than the present program because it would apply the \$2 price to all wheat produced. In Senator Young's proposal, the amount that exceeded the certificate income to the Government would have to be made up by the taxpayer. This alone would involve several hundred million dollars more than the program recommended by the administration.

Senator YOUNG. The farmer would receive the \$2 price for his normal production only, not on total production as you indicate. Isn't your main problem the fact that the Bureau of the Budget has placed a ceiling on the cost of these programs?

Secretary FREEMAN. There is no ceiling that has been placed on the cost of the programs, but we are concerned about the cost of the program. In this instance, the administration proposal would increase wheat farm income about \$150 million. The Senator's proposal would increase it an additional \$220 million, roughly, but would add a larger amount to the cost. So there is a budget problem in this regard.

Senator YOUNG. It is fast reaching the point where I feel, Mr. Secretary, and I think many people will agree with me, that if you have price supports at very low levels you might as well abolish them. If the farmers are going to go broke anyway you would be better off to do this.

I still hope that this committee will write a wheat bill that will mean more income for farmers. I am sure, and this can be checked with all bank records, that in spite of better-than-average crops most of these wheat farmers are finding themselves in financial difficulty. Many of them are going broke.

Secretary FREEMAN. I certainly share your concern. I would add, also, in connection with this, another operating problem that would give us some concern would be to continue the progress in bringing down our surpluses. We have reduced our wheat carryover by about 450 million bushels, but the carryover ought to be in the neighborhood of 600 million bushels, not the present 900 million bushels of wheat. We think that under the proposal in your bill, Senator, extra compliance in the program would be so limited that we would not be able to continue bringing down our surpluses because of the \$2 price level on all wheat produced.

Senator YOUNG. There is not a \$2 price in the marketplace. The farmer gets the \$2 blended price through minimum price supports and production payments. Why would there not be more participation and less cost to the Government? The mechanics are the same as under the present program.

Secretary FREEMAN. The point is there would not be the voluntary diversion. We would not get the acreage down below the 49 million acres which would result in a cutback in production to bring down our surpluses.

Senator YOUNG. Why wouldn't they? The mechanics are the same. If you don't think they are the same they can be changed. I have no objection to changing the mechanics of the operation of the program so they are the same as the administration bill.

Secretary FREEMAN. The problem would be simply that the farmers would not take the additional step of reducing the acres upon which they are producing wheat with a \$2 income level tied to the payments which your bill would call for.

Senator YOUNG. Your argument is that you have to break the farmer in order to get him to comply with the program?

Secretary FREEMAN. I am not arguing at all that you have to break the farmer. I am pointing out that we have a target of getting our surpluses down to an adequate reserve level so that we can continue to command support for our farm program so we can pass them through the Congress.

Senator YOUNG. Mr. Secretary, if a farmer was assured of a blended price support of \$2 a bushel he would be far more apt to comply with the program than is the case now. There is more incentive for overseeding now. Some producers can do about as well staying out of the program and overseeding. The farmer could not afford to stay out of a program such as proposed in my bill, however.

Secretary FREEMAN. Of course not. He would come into the program, I quite agree, but he would not avail himself of the opportunity of reducing his acreage more than the amount required. That is the point I make, Senator. We seek to maintain his income by having the relation between the acreage diversion payments and the certificate payments on such a basis that we can cut production, maintain income, and get surpluses down to necessary reserve levels.

Senator YOUNG. You and I understand farming differently. I would think that with a program such as this you would have almost 100 percent compliance. You would not have these farmers overseeding. Under the present program many of them can overseed and make money selling their wheat at the market price rather than staying within the program and restricting production.

Secretary FREEMAN. Let me put it this way—we certainly agree, and you are correct that the compliance and participation in the program would be good. What I am merely saying is that for the voluntary acreage diversion, the 50-percent maximum payment rate is not attractive with a \$2 blend price. We would seek to maintain that farmers' income and at the same time we would hope that he would voluntarily cut back his acres so that we would be able to get down to our reserve level and cut our surplus stocks. And so I really think that we are talking pretty much about the same thing.

Senator YOUNG. I wish you would look this proposal over a little more carefully.

The CHAIRMAN. Mr. Secretary, I think it might be appropriate that you place a table at this point indicating what the costs to the Government would be by adopting the so-called Young plan and the one you are proposing. Now, as I understand it, under the present law, you are authorized to allocate the number of acres among the farmers that will produce 1 billion bushels.

Secretary FREEMAN. That is correct.

The CHAIRMAN. All right. Assuming that you do that and you conform with Senator Young's bill and pay \$2 per bushel, that would mean that the income of the farmers would be \$2 billion, but under the present production, that is the operation of the law for this year, on a more or less volunteer basis, I had our economist here figuring out that the farmers would receive \$2,223 million, in round figures.

Secretary FREEMAN. That is right for the 1964 crops.

The CHAIRMAN. And it might be well that you place in the record at this point the difference in the cost to the Government and the difference in the income to the farmer by using the same programs with similar acreage.

(The information referred to follows:)

WHEAT.—Comparison of estimates under S. 1702 and S. 2025, 1966–67 marketing year

Item	Unit	1966-67 marketing year		
		S. 1702	S. 2025	S. 2025 ¹
I. Assumptions:				
A. Allotment.....	Million acres.....	47.8	49.5	49.5
B. Loan.....	Dollars a bushel.....	1.25	1.30	1.30
C. Price-support payment.....	do.....	0	.70	.70
D. Marketing certificate value:				
1. Domestic.....	do.....	1.25	1.25	1.25
2. Export.....	do.....	0	0	0
E. Marketing allocation:				
1. Domestic certificates.....	Percent.....	45		
2. Export certificates.....	do.....	² 0		
F. Land diversion payment rate.....	Percent of loan.....	50	50	50
G. Yield.....	Bushels per acre.....	27	27	27
II. Estimated results:				
A. Acreage diverted (total).....	Million acres.....	110	7	7
1. Commodity program.....	do.....	8	6	6
2. Conservation adjustment pro- gram.....	do.....	2	1	1
B. Acreage harvested.....	do.....	47	51	51
C. Change in carryover stocks.....	Million bushels.....	-80	+20	+25
III. Income factors:				
A. Farm value of production.....	Million dollars.....	1,715	1,788	1,856
B. Price-support payments.....	do.....	0	³ 800	³ 800
C. Value of certificates.....	do.....	⁴ 625	0	0
D. Acreage diversion payments:				
1. Commodity program.....	do.....	29	17	17
2. Cropland adjustment program.....	do.....	26	13	13
E. Total.....	do.....	2,395	2,618	2,686
IV. Major elements of program cost: ⁵				
A. Certificate operations:				
1. Certificates issued to farmers.....	do.....	⁴ 625	0	0
2. Certificates sold to processors.....	do.....	⁶ 625	⁶ 625	⁶ 625
3. Net certificate operations.....	do.....	0	⁶ 625	⁶ 625
B. Price-support payments.....	do.....	0	³ 800	³ 800
C. Diversion payments (including CAP).....	do.....	55	30	30
D. Carrying charges.....	do.....	181	199	199
E. Acquisition cost (net loans and pur- chases).....	do.....	181	228	228
F. Sales proceeds.....	do.....	⁶ 360	⁶ 240	⁶ 240
G. Export subsidy on commercial exports (mostly shipments under IWA).....	do.....	7	0	7
H. Subtotal, above items.....	do.....	64	392	399
I. Public Law 480 commodity costs.....	do.....	756	728	756
J. Total.....	do.....	820	1,120	1,155

¹ Assumes season average price of \$1.35. This may be somewhat unrealistic in lieu of the increase in carryover stocks of 25,000,000 bushels.

² Authority is provided to use export certificates on a permissive basis. If 35-percent allocation and 30-percent value of certificate are used (same as 1965), returns to producers and program costs would be about \$105,000,000 more.

³ Computed as follows: Acreage planted for harvest by participants×normal yield×price-support payment rate (44,000,000 acres×26 bushels×\$0.70=\$800,000,000). The 44,000,000 acres is computed on the basis of 88 percent participation of the 53,500,000 acres effective allotment (49,500,000 acres plus increase for small farms), which totals 48,000,000 acres, less the allotment acres diverted under the CAP and voluntary program (2,000,000 acres), and estimated underplanting of allotment by participants (1,000,000 acres).

⁴ Computed as follows: Acreage planted for harvest by participants×projected yield×marketing allocation=bushels on which certificates are issued×certificate value=value of certificates issued (41,000,000 acres×27 bushels×45 percent=500,000,000 bushels×\$1.25=\$625,000,000).

The 41,000,000 acres is computed on the basis of 85 percent participation of the 51,800,000 acres effective allotment (47,800,000 acres plus increase for small farms), which totals 44,000,000 acres, less 3,000,000 acres estimated not eligible for certificates because the entire allotment is diverted under the CAP or the voluntary acreage diversion program. (NOTE.—Voluntary diversion and underplanting of allotment acreage by participants would not affect eligibility for domestic certificates unless this reduced the acreage planted for harvest to less than 45 percent of the allotment.)

⁵ These major elements of cost for all activities during the 1966–67 marketing year—including carrying charges, acquisition costs, sales proceeds, export subsidies, and Public Law 480 costs relating to both the 1966 crop and crops from prior years—are for comparative purposes only and cannot be compared directly with fiscal year budgetary expenditures. Cost items such as Public Law 480 ocean transportation, inland transportation on Public Law 480 shipments from private stocks, and wheat products purchased for domestic donation are not included in these estimates. These costs would be about the same under both alternatives.

⁶ Denotes receipt.

Senator YOUNG. Could you provide us with the net cost of this program to the Government?

The CHAIRMAN. That is what I meant. A net cost would be actual, would it not?

**STATEMENT OF EDWIN A. JAENKE, ASSOCIATE ADMINISTRATOR,
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE,
U.S. DEPARTMENT OF AGRICULTURE**

Mr. JAENKE. We use "program cost" for comparing one with the other. This includes the receipts to the Government minus disbursements to farmers, export subsidies, and other costs, so it is a real cost for that year's operation of the program.

Senator YOUNG. That would include production payments, and acreage, diversion payments?

Mr. JAENKE. Yes, sir; everything.

Secretary FREEMAN. Just so I can respond to that now, and it will give Senator Young an opportunity to look at these figures because we want to benefit from his knowledge and understanding of wheat and wheat farming, and he has been an outstanding advocate, and I want to express my appreciation for his help and counsel on a lot of technical questions. The current analysis we have, Senator Young, would show that under the administration's bill, S. 1702, that the wheat farmer income would be \$2,395 million. Under Senator Young's bill, S. 2025, the wheat farmer income would be \$2,618 million. The cost under the administration program, including Public Law 480, would be \$820 million. The cost under Senator Young's program, including Public Law 480 program, would be \$1,120 million, and these are the best comparative costs and income analysis we have at this time.

Senator YOUNG. I do not understand where you get the decrease in income to farmer under my proposal. Did you not indicate there would be a decrease?

Mr. JAENKE. Income is up \$220 million.

Senator YOUNG. When speaking of the administration wheat plan, are you taking into consideration the use of an export certificate?

Mr. JAENKE. This assumes no export certificates in either case.

Secretary FREEMAN. Another difference that the Senator is well aware of is that, under the administration proposal, the acreage allotments would be governed in terms of the estimate as to what the needs were, with a minimum of 1 billion bushels. Under the Senator's bill, the minimum acreage allotment would be 49½ million acres.

Senator YOUNG. These differences could be worked out.

The CHAIRMAN. Mr. Secretary, may I also suggest that in connection with the data that you are going to place in the record by way of comparison of income to the farmer, and the cost to the Government, that you place in the record at this point the entire cost of the wheat program from its inception up to the last full year of its operation under current laws and past laws?

Secretary FREEMAN. We will be happy to do that.

The CHAIRMAN. In other words, we can get the whole picture.

(The information referred to follows:)

COMMODITY CREDIT CORPORATION

Wheat and wheat products: Realized loss and CCC costs, Oct. 17, 1933, through Apr. 30, 1965

		Millions
Realized loss:		
Price support	-----	\$2,301.5
Direct payments:		
Price support	-----	79.1
Acreage diversion	-----	480.9
Commodity export payments	-----	716.7
Total realized loss on price support and related programs		<u>3,578.2</u>
CCC costs:		
Public Law 480: ¹		
Title I:		
Commodity costs (gross)	-----	7,537.8
Ocean transportation	-----	719.8
Total, title I		<u>8,257.6</u>
Title II:		
Commodity costs (gross)	-----	738.3
Ocean transportation	-----	88.6
Total, title II		<u>826.9</u>
Title IV: ²		
Commodity costs (gross)	-----	148.2
Ocean transportation	-----	12.9
Total, title IV		<u>161.1</u>
Total, Public Law 480: ¹		
Commodity costs (gross)	-----	8,424.3
Ocean transportation	-----	821.3
Total, Public Law		<u>9,245.6</u>
International Wheat Agreement	-----	1,480.3
Other ³	-----	76.8
Total realized loss and CCC costs		<u>14,380.9</u>

¹ No allowance has been made for (a) dollar proceeds from sales of foreign currencies received from title I shipments, and (b) dollar repayments for the export market value of shipments under long-term credit agreements—title IV (financial records do not show such recoveries by commodity). Such proceeds would reduce costs.

² The export market value of title IV shipments, including ocean transportation charged to the importing country, is repayable in U.S. dollars over the period of time specified in the various agreements.

³ Includes primarily transfers of wheat to the Government of Pakistan (Public Law 77, 83d Cong.) and emergency famine relief to friendly peoples (Public Law 216, 83d Cong.).

NOTE.—Excludes interest and administrative expenses except for IWA.

Source: CCC financial records.

Senator COOPER. Mr. Secretary, could you give now an estimate of the direct cost to the Government of the administration's proposed wheat program?

Secretary FREEMAN. The direct cost of the administration proposal?

Senator COOPER. Yes.

Secretary FREEMAN. The cost of the administration program, S. 1702, is \$820 million, which is made up of \$756 million Public Law 480 costs and \$64 million for other costs.

Senator COOPER. What is the estimated cost for diversion payments?

Secretary FREEMAN. For diversion payments, \$29 million.

Senator COOPER. What would be the total additional amount that processors would pay under this proposal?

Secretary FREEMAN. The value of certificates issued to producers and sold to processors for domestic food use would be \$625 million.

Senator COOPER. How much is it under the present wheat program?

Secretary FREEMAN. An estimated amount for 1965-66 is about \$375 million for domestic food use only.

Senator COOPER. Thank you. Processors would pay, then, approximately \$250 million more?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Proceed, Mr. Secretary.

Secretary FREEMAN. Thank you, Mr. Chairman.

Thank you, Senator Young.

Certain other changes are proposed from the 1965 program. For example: A "projected" farm yield would be used in computing diversion payments and certificate amounts rather than a farm "normal" yield. The purpose is to establish yield data which will more nearly reflect the yields which farmers actually obtain.

The CHAIRMAN. How would you project that? You usually project for the future.

Secretary FREEMAN. You would take the yield over the past 3 years and then take into consideration the current factors so far as they can be determined in relation to weather and all the elements which go into making a crop. We feel that this would be much simpler than the current normal yield system which, frankly, I have difficulty understanding myself; it goes back over a 5-year period and involves a very complicated and administratively difficult procedure. This would be fairly simple and be much more representative of what the actual yield situation would be, and much more satisfactory to the producer.

The CHAIRMAN. Would it be simplified because of the fact that you use 3 years instead of 10?

Secretary FREEMAN. It would be simplified for that reason, and also because of the difference of the formula.

You want to respond to that?

Mr. JAENKE. Part of the answer would be what you pointed out.

The other aspect is that, under the present situation where we use the historical normal yield, we are looking backward 3 or 5 years to an average for this period. Under the projected yield, we would use the same data, but—instead of going back 3 years to pick out the average—we would look ahead to the trend in that yield and determine for 1966 or 1967 based on those absolute figures. So it would bring the yields up to date instead of being 4 years behind.

The CHAIRMAN. I think that was contemplated when we enacted the most recent wheat law wherein we stated that because of the fact the farmers were using more fertilizer that it was best to base it on a bushelage than on acreage. And we, as I recall, fixed the minimum bushelage at 1 billion.

Mr. JAENKE. That is right.

The CHAIRMAN. And whatever number of acres would be required to produce this 1 billion bushels, you would allocate as you did in the past.

Mr. JAENKE. That provision would not be changed. That minimum of a billion bushels stays the same under the bill and the procedure for arriving at it.

The CHAIRMAN. Specifically how would this new formula differ? Would it increase acreage or decrease it?

Mr. JAENKE. It would not do either. The minimum would not be changed by this. It would still be 1 billion bushels.

The CHAIRMAN. I understand that, but I mean you have to divide production into bushelage to find out the number of acres you need to produce the minimum.

Mr. JAENKE. The authority in the existing law provides that in determining the acreage on a national level we use an anticipated or expected yield. This bill would ask for that same authority to be used in determining the payment rates at the farm level and county level.

The CHAIRMAN. So you would have the same formula?

Mr. JAENKE. That is right.

Senator YOUNG. Mr. Chairman?

The CHAIRMAN. Yes, sir.

Senator YOUNG. I have heard a lot of good comments on this proposal from county ASCS committeemen and farmers. Under this, would you depart from the past procedure and tend to establish about the same yield for every farmer regardless of what he has actually produced? Would this tend to average out the assigned yields more than the present procedure?

Mr. JAENKE. I think you are referring to productivity.

Senator YOUNG. Yes, I have reference to the productivity indexes and assigned yields.

Mr. JAENKE. That would not be affected by this proposed bill. That same procedure would be followed. We would hope in determining projected yields, that the data—the individual information at the country and State level—would be so applied that it would widen the spread and avoid the human factor of narrowing the spread between one farm and another.

The CHAIRMAN. How would you proceed to adjust that, Mr. Jaenke? Assuming you take all acreage required to produce the 1 billion bushels, and you determine what the present average is through this formula you just talked about. Now, in allocating this acreage necessarily you find some areas of the country that produce greater amount per acre than others. How do you make that adjustment?

Mr. JAENKE. This is two different problems. The national allotment would be arrived at in the same manner as it now is. As you know we use expected yields in arriving at the national allotment. Yields would not affect the apportionment of the national allotment to States and counties. The projected yields we are speaking of now would be used for the calculation of payments and certificates. This would be on the basis of the State and county yield data which are available, the same kind of normal yield data we had in the past. The same figures would then be used. Instead of looking back to the average, we would look ahead to the expected or projected one, based on trend, for the year in which you are determining this.

The CHAIRMAN. If you take the average of wheat produced all over the country where in some areas the production might be 25 bushels per acre as it is in the State of Louisiana, 30 in Mississippi, and 40 in Washington, how would States producing as much as 40 bushels per acre fare with States like in Kansas, which is the real wheat-producing State, and North Dakota, South Dakota, and other wheat-producing States where the production there may be about 20 or so bushels?

Mr. JAENKE. The only effect of this new change would be to speed up the reflection of that higher yield. The same amount would be there. If one State under the old system is increasing at a bushel per acre, this will be reflected in the normal yield to that State, in their program provisions, within 2 or 3 years in the future.

Under this proposal, it would come into effect right away.

That is the only difference.

The CHAIRMAN. Well, it would seem to me that those areas in which more wheat is produced per acre would have a disadvantage to those that produce less, and I am just wondering how you adjust that.

Mr. JAENKE. The yield change would not affect State and county acreage allotments as I mentioned. The projected yield formula would apply to the program provisions such as payments, such as certificates, diversion payments, and so forth.

Secretary FREEMAN. It would not affect the acreage allocation to States and counties. It would affect the payments that would be made to the individual farmer because it would incorporate the projection of the yields which were anticipated for that year.

The CHAIRMAN. Well, the point is, though, that if you use a low-producing State average as against that of a high-producing State you might get less acreage, overall less acreage.

Mr. JAENKE. The State allotment would be based on the State's share of the previous year's national allotment. The average yield of the State would not enter into this calculation.

The CHAIRMAN. In other words, if it requires, let us say, 48 million acres to produce 1 million bushels.

Mr. JAENKE. Yes, sir.

The CHAIRMAN. That 48 million acres would be allocated to the States in proportion to what they are now receiving in acreage.

Mr. JAENKE. In proportion to what they are now receiving.

Senator YOUNG. Under this proposal could a farmer prove his yield as he can now if he is assigned a yield he feels is inequitable? If he proves a better yield can he receive the benefit of it?

Mr. JAENKE. We contemplate that proven yields will be the base point for the projection. If a farmer has been proving his yield the last 4 or 5 years, then that would reflect itself in his projected yield for the future.

Secretary FREEMAN. The answer is "Yes."

CROPLAND ADJUSTMENT

Senator AIKEN. Would you state the amount of acreage that can be put under the cropland program?

Secretary FREEMAN. Excuse me?

Senator AIKEN. Would you restrict the amount of acreage that could be put under the cropland program in each State?

Secretary FREEMAN. There is within the act authority to do that under the cropland adjustment program. It would be done by the Secretary, in light of the local economic situation, so that there was not so much acreage put under the cropland adjustment program as to have a serious local economic effect.

Senator AIKEN. And you would not permit, say, Kansas, to take out the same percentage of acreage as the State of Ohio?

Secretary FREEMAN. We have not contemplated doing this on a formula basis, nationwide, under the cropland adjustment program. I have rather considered this in relation to a delegation of authority to State and local committees, which would be based upon the situation in the local community.

Senator AIKEN. Because the sharp increase in production per acre has been due largely to taking those acres out of production that produced very light yields.

Secretary FREEMAN. That was the weakness of the program.

Senator AIKEN. And that is something you have to consider.

Secretary FREEMAN. We certainly do, but also we have to realize that this would be a voluntary program, and I am sure we would get different receptions in different places around the country. But the target is precisely the one the Senator calls attention to, that we would seek to retire those acres that do produce the crops that are in surplus. We would require that that land be retired first.

Senator AIKEN. The wheatgrower getting 15 bushels to the acre would be more inclined to retire his land than the one who is getting 45.

Secretary FREEMAN. He would be perhaps, but maybe not because he will get paid less.

Senator AIKEN. He will get paid less?

Secretary FREEMAN. His rate will be less than for higher yielding land.

Senator AIKEN. That would be quite a measure of control, I would think.

Secretary FREEMAN. Yes, it will be, and the guidelines that we have set down are such as to protect the community and yet allow some discretion and flexibility because it will deal with a whole host of local variant situations.

Senator AIKEN. Yes.

WHEAT

The CHAIRMAN. I am certain it will be very interesting to the members of this committee to compare the proposed bill of the administration with others that are being advocated, particularly by Senator Young.

Secretary FREEMAN. Yes.

The CHAIRMAN. To find out how the farmer will get more money and the cost to the Government will be less, because, as I recall the income to the farmer is raised considerably by the payments coming from the Government.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And it would be very interesting to make that comparison, and I know of no better way than to have the tables next to each other.

Senator YOUNG. Yes, I think this would be very helpful.

Secretary FREEMAN. No; that would be a lot of rice; would it not?

Senator AIKEN. Yes.

Secretary FREEMAN. I stand corrected. It is 30 million pounds.

The CHAIRMAN. All of this has been done for Puerto Rico in spite of the fact that we see every day in the newspapers that Puerto Rico is doing splendidly, commercially and otherwise?

Mr. CHAIRMAN. I think the bill introduced by myself and several others would cost less. I think it would cost a little more, but the income to the farmers would be up sharply.

Secretary FREEMAN. I would certainly welcome a further review of these figures.

The CHAIRMAN. All right, Mr. Secretary.

Senator MCGOVERN. Can I ask one or two questions?

The CHAIRMAN. Yes, indeed.

Senator MCGOVERN. I had to go before the Banking Committee.

Before we leave the wheat matter, I wonder if the Secretary will comment a little further on the certificate features of the program. As I understand it, the administration bill would put about another \$250 million in the hands of wheat farmers by raising the domestic certificates in such a way as to secure full parity on the domestic feed wheat and about half of that would be lost to the farmer when you remove the use of the export certificates, somewhere between \$100 or \$125 million. Is it my understanding that it is international trade considerations that are entered into in that removal of the export certificate?

Secretary FREEMAN. Yes. We are seeking to hold and to strengthen our export markets in wheat, and we are trying to be competitive in that respect and to avoid the use of export subsidies which strengthens our competitive position in international markets.

Senator MCGOVERN. If my memory is right, a year or so ago when this matter was before the Congress and the administration was considering it, the contention was that we needed the export certificate to prevent some of our wheat from going into international channels below the International Wheat Agreement price. Would that argument still hold?

Secretary FREEMAN. Yes; and for that reason, Senator McGovern, the Secretary would have discretion in this proposal to use export certificates if that should be required. Exactly where we are going to be in terms of international wheat prices is something that is being determined largely in negotiations taking place in Geneva, Switzerland, right now, and there are a number of schools of thought as to where this will land. There are a few countries—of which the United States is dominant—that in effect set world prices. We have tended in the past to hold an umbrella over world prices with the residual suppliers. This is true of the other commodities as well, and we are seeking to move from the position of residual supplier to a more competitive position, so we will have a larger share of world markets which we feel the country is entitled to. This is one of the reasons why, as a part of this overall picture, we are seeking to avoid export certificates and yet have the authority to use them, if needed.

Senator McGOVERN. I think there is a fair chance that the negotiations that the Canadians and other exporting countries will be worked out so that you might be able to reinstitute export certificates this year.

Secretary FREEMAN. Let me say this is a possibility. I would hate at this time to give a quantitative rating, but I am familiar with your concern with it and the fact that you have urged the use of export certificates where they will not interfere with international markets. We are sharply conscious of this problem.

Senator McGOVERN. Mr. Secretary, as you know, my primary concern, of course, is trying to do something to raise farm income. Now, if you cannot for reasons institute the export certificates, is it possible under the language of this bill that you might do a little more under the diversion payment feature to make up to the farmers in increased diversion payments some of the income they would otherwise lose under the export certificate feature?

Secretary FREEMAN. The bill as it now stands before this committee would provide the discretion to increase the diversion payments on acreage if the overall situation called for it; yes.

CCC RESALE PRICE

Senator McGOVERN. Just one additional question, and then I am through.

We have had a great deal of interest in our part of the country in trying to raise the commodity resale price. Just speaking about wheat only, laying aside the matter of feed grains and considering the fact that this legislation proposes a certificate of \$1.25, would not that be high enough to secure compliance with the program without using the CCC policy to encourage compliance? In other words, could we not raise the resale price to 115 percent of loan and still get adequate compliance by using the \$1.25 certificate?

Secretary FREEMAN. I doubt it very much, at least this would be a question about which there would be a strong difference of opinion, and this is not the primary reason why the Department of Agriculture and the administration vigorously oppose any increase in resale. I will come to that in the prepared statement in some detail. I think increase in resale starts us down the road which would mean the destruction of the wheat program and the other programs as well. I do not think it is necessary. It will not increase farm income, but is a time bomb that will destroy these programs, and I would vigorously oppose any change in the resale provision of our program.

The CHAIRMAN. Mr. Secretary, pursuing the thought of Senator McGovern in respect to making the wheat producers of America more competitive, as you recall in the past, I do not know whether you admit this or not, but we had a little interference from the State Department, on selling wheat abroad. They felt at times that if the sale of wheat would injure the economy of some of our friends why they would put a little brake on it.

Now, you have had experience this year under the present law. Was there any protest from any country—was there any disturbance caused because of the fact that wheat was sold from this country on a more or less competitive basis world prices?

Secretary FREEMAN. Yes, when we did drop wheat prices, there were strong representations made by some of the other major wheat exporting countries protesting these drops in price.

The CHAIRMAN. Well, if I recall, quite a bit of dust was kicked up by our friend to the north of us, Canada.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. What other country?

Secretary FREEMAN. The main wheat exporting countries.

The CHAIRMAN. Australia?

Secretary FREEMAN. Australia, Argentina, and Canada.

The CHAIRMAN. Did you get the same reaction?

Secretary FREEMAN. Equally vigorous.

The CHAIRMAN. Equally vigorous?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And it is your feeling that in either case, if Senator Young's proposal is adopted or yours, that the tendency would be to have wheat exported to compete on world markets with no umbrella over it.

Secretary FREEMAN. At world prices.

The CHAIRMAN. To everybody?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. In other words, no one could say that by a device of price control you would hold an umbrella over anybody?

Secretary FREEMAN. The Chairman is exactly right, and this is an important factor not only in these commodities but others.

The CHAIRMAN. I agree.

Secretary FREEMAN. We can move agricultural commodities at world prices and strengthen world markets without these protests that we are misusing our superior economic power—complaints which we get when we use export subsidies. We are in a much stronger position when we can move in world markets at world prices and meet our domestic income problems through other methods, and we have been trying to move very firmly in that direction.

The CHAIRMAN. Do you discuss this in your statement, the effect of this new method; that is, of selling at world prices with the wheat agreement that we have on hand, one which we ratified this week?

Secretary FREEMAN. No, sir; that is not covered in here.

The CHAIRMAN. Would you mind covering that, not now, but in the future, what effect it will have?

Secretary FREEMAN. Well, in the first place, we held the International Wheat Agreement down to 1 year because we did not want to be committed beyond 1 year to the minimums and maximums set down in that agreement.

What our future policy will be in connection with wheat sales will be determined by the negotiations that are taking place in Geneva, and by discussions with the Common Market—which is critical in this respect—with whether we and the other exporting nations succeed in obtaining fair access to the internal user open market for the grains, and a host of questions that have not yet been answered. But we are maintaining a flexible position, and we do propose to be significantly more aggressive in seeking world markets for American agriculture than has been the case in the past.

The CHAIRMAN. If we should continue our present policy of selling wheat and other commodities at world prices, do you not think it

might affect or it might not be necessary for us in the future to enter into wheat agreements?

Secretary FREEMAN. I think this is very possible, and we have got to, of course, make up our mind, or at least consider two extremes. One is the development of a comprehensive, international commodity agreement for the grains which would seek to balance international supply and demand at a price that would be fair to producers and would also make these commodities available commercially to other countries. This is one alternative.

The other alternative is just to turn loose the competitive forces in the world market. This, of course, has within it the danger of a price war which could result in lower and lower grain prices.

Now, somewhere between these alternatives is perhaps the right ground, and I am not prepared to say now where it will be because that is going to really be resolved in terms of what takes place in the current Kennedy round GATT negotiations.

The CHAIRMAN. If we should dispose of much of our wheat at world prices and then enter into a wheat agreement it may result in more or less holding an umbrella over some of the producers as well as the purchasers of wheat.

Secretary FREEMAN. If we are to enter into an international arrangement, that arrangement is going to have to provide a fair share for American producers.

The CHAIRMAN. As you know, in the past we have been held back; that is, our quota I do not believe was fair, but somehow the Government more or less insisted on the wheat agreement which in my opinion and in many cases did not inure to our benefit as much as it should.

WHEAT

Senator YOUNG. Mr. Chairman, I would like to ask this question of the Secretary. Most of the European Common Market countries have a wheat price support of almost \$3 a bushel, do they not?

Secretary FREEMAN. Yes.

Senator YOUNG. Do you not think they will have trouble in the future trying to maintain this high-level price support while charging their consumers correspondingly high prices when they could buy wheat cheaper from the United States?

Secretary FREEMAN. I think in the long run this may very well take place and, frankly, they are running into a good bit of trouble now in trying to operate the variable fee system within the Common Market. For poultry, it has almost broken down into a complete shambles, and the grain agreement has only recently gone into effect. We will have to see what happens. It may very well encourage a significant increase in production in France.

Some of us think that it will, and then they are going to have some wheat surplus problems like we have then, of course, worldwide, we have some problems of additional potential price wars on wheat, in the struggle for markets around the world.

So there may be a great many of the difficulties to which you refer.

Senator YOUNG. They could well wind up with a wheat surplus and a shortage of other agricultural products that are badly needed.

Secretary FREEMAN. They are producing, we estimate today, in France a surplus of about 125 million bushels of wheat a year, and the irony of it is that it is being exported or is likely to be exported with a heavy export subsidy financed by other members of the Common Market. That is happening today in poultry. Many countries have been paying very heavy fees to get into the Common Market. The money is used for export subsidies on poultry, which today is going into Austria and Switzerland to further erode our poultry market, and in the meantime Denmark is consistently lowering her prices to get into the Common Market and the Common Market is continually putting up their fees to keep Denmark from getting into the market and they are paying more to subsidize to get into other markets and it is going around like crazy.

Senator YOUNG. This may mean they will be easier to get along with a year from now.

Secretary FREEMAN. I hope so.

The CHAIRMAN. You may proceed, Mr. Secretary.

Secretary FREEMAN. That concludes the statement on wheat.

FEED GRAINS

Let me now go to feed grains.

Perhaps in no other area of agriculture is the technological revolution so much in evidence as it is in feed grains. In 1960 corn yields averaged only 54.5 bushels per harvested acre. By 1963 the average yield had risen to 67.6 bushels. Yields in 1964 were down due to drought, but if we have normal weather this year we may see corn yields averaging around 70 bushels—a rise of 15 bushels or more in 5 years.

With the feed grain program, we have reduced corn acreage each year by about 20 million acres. If we were producing corn on those acres this year, we estimate an additional corn crop of 70 bushels times 20 million acres, or 1.4 billion bushels of corn. And that would be corn we don't need and could not use—corn that would go into storage.

The CHAIRMAN. That is if you had not changed the program?

Secretary FREEMAN. I believe it would go to storage anyway.

The CHAIRMAN. Well, the law that we have on the statute book now which has been superseded by this present law would, in my opinion, prevent this, would it not?

Secretary FREEMAN. Well, if the Senator means the alternative to the feed grain program which would be a program of 50 to 90 percent of parity but set at a level which would not add to stocks, this would mean that we would then have 50 percent of parity, the minimum, which would be about 80 cents for corn. We think that with 80-cent corn, we would be adding to stocks. There would be some increase in utilization but not much. So I think we would be taking on corn in very significant quantities under either proposal.

The CHAIRMAN. I do not argue with my distinguished Secretary of Agriculture, but the program on corn has been very expensive. As I recall the figures, and I placed them in the record some time ago, on the 4-year program the cost has been in the neighborhood of \$5.4 billion and we reduced our surplus by only 28 million tons, and reduced to bushels cost it will mean it costs the taxpayers \$6 per bushel to do

that. That is why I have proposed a bill which, by the way, was enacted by Congress here and passed, would require mandatory acreage controls for corn and other feed grains. In the course of time, of course, we will discuss that with you.

Secretary FREEMAN. Well, I would just like to say it was the chairman's very brilliant leadership that accomplished the passage by the Senate of the 1962 legislation. It was unfortunate that the proposal at that time—which we fought for very hard and tried to pass in the House—did not succeed, and so I do not take issue with the Senator on the merits of the program. But I would say that I do not think that it is politically realistic to assume that you can pass a mandatory feed grain program. I am thoroughly convinced that it would never pass in a referendum, and I am further thoroughly convinced that it would be a catastrophe not to have a feed grain program. We are not in disagreement on this, but a question of how we can reach the goal best.

The CHAIRMAN. Well, it is my hope to try it anyhow.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Because in my humble judgment the corn producers have had in the past the best of all these programs. They have been permitted to plant without marketing quotas and without any penalties for overplanting, and here we are dealing with the proposal this year, as I understand it, the estimate that you made—the program will cost about \$1.3 billion or maybe \$1.4 billion, and in any event we will go into that later.

I don't want to start arguing now.

Secretary FREEMAN. All right, sir.

Just so the record will be clear on this, may I say in terms of acreage, in terms of participating farms, and in relation to the value of production, that the cost of the feed grain program is the least of all the agricultural commodity programs.

The CHAIRMAN. That is because you have so many farms interested.

Secretary FREEMAN. Yes.

The CHAIRMAN (continuing). That grow corn. They grow it in every State of the Union, except maybe in Alaska or Hawaii. But, generally speaking, corn is grown everywhere.

Secretary FREEMAN. Yes, sir; you are right.

The CHAIRMAN. And it is a crop that is used all over the Nation. I believe in the philosophy that any farmer who expects his Government to support the prices of any commodity should be willing to curtail his production in keeping with our requirement. It is that simple.

Secretary FREEMAN. I concur in that philosophy and that attitude, as you know, Mr. Chairman.

The CHAIRMAN. Yes, sir.

Secretary FREEMAN. Consider what would have happened in those years without the feed grain program—in other words, with a 1960-type program in the face of rising yields. It is estimated that total stocks of the four feed grains would have continued the upward trend of the late 1950's, and would have exceeded 125 million tons by the end of this marketing year. Ultimately this would have resulted in public costs much greater than the diversion and other payments made to producers in return for voluntarily curtailing production.

Without the voluntary feed grain program, the feed grain surplus would be intolerable. The action of the Congress since 1961 has enabled the farmer and the American public to head off a serious crisis.

In addition, the voluntary programs have helped to increase farm income. In the 4 years, the program has increased returns to farmers by nearly \$3 billion. This reflects the increased value of the crops produced, plus the acreage diversion and price support payments. In addition, there were savings in production costs for farmers who diverted acres.

Senator COOPER. Just to have the facts clear, how much of this \$3 billion represents increased value of the crops produced and how much represents Government costs for acreage diversion and price supports?

Secretary FREEMAN. I don't have the figure in my head, but we moved up on a farm value of corn in 1960 of about a dollar to about \$1.16 this year.

Senator COOPER. It would be helpful to have that in the record.

Secretary FREEMAN. Yes, sir, we will supply that.

Equally as important, this program has encouraged stability in the livestock sector of the farm economy. The rapid recovery of the livestock industry from its price difficulties of late 1963 and early 1964 could not have taken place without the stable price levels in feed grains which have prevailed for the past 4 years.

The CHAIRMAN. Mr. Secretary, will you indicate for the record, if you have it, at the present, of the \$3 billion increase in returns to the farmers, how much of that is attributable to Government payments?

Secretary FREEMAN. Yes, sir, we will do that, Senator Ellender, as part of our reply to the request of Senator Cooper.

The CHAIRMAN. I would like to have all of that.

Secretary FREEMAN. In terms of the direct payments with relation to the other. Very good, sir. I will supply that.

(The information referred to follows:)

STATEMENT REGARDING INCREASED RETURNS TO FARMERS UNDER THE VOLUNTARY FEED GRAIN PROGRAMS

The feed grain programs from 1961-64 brought about an increase in total returns to feed grain producers despite the fact that production was less than with the pre-1961 program. Reduced production was necessary to bring about a reduction in carryover stocks and Government program costs.

Despite lower production, income was increased because prices received by farmers were higher in 1961-64 than under the pre-1961 program. Farmers produced less grain but received substantially more per bushel than they did in 1960. The season average price received by farmers for their corn in 1960 was less than a dollar a bushel. In 1961 the season average price was increased to \$1.08 a bushel. These prices continued to rise gradually, and the preliminary figure for the 1964 crop is \$1.16 a bushel.

In 1960 the total return to producers of the four feed grains totaled only \$5,469 million. In 1961 total returns were \$6,207 million. At the same time feed grain stocks were reduced about 13 million tons, reversing the trend of increasing stocks that prevailed since 1952. The peak occurred after marketing of the 1960 crop, when feed grain stocks totaled almost 85 million tons.

By 1964 returns to feed grain producers was up to \$6,704 million, more than \$1.2 million above the 1960 level. Returns during the 1961-64 period, when the voluntary programs were in effect, total more than \$26 billion, of which less than 14 percent represent Government payments.

As result of the program stocks were reduced about 30 million tons, and the Government will actually spend in 1965 alone some \$136 million less than was spent in 1960 for grain storage and handling. If the upward trend in stocks of the 1950's had continued, total stocks of the four feed grains would have reached an estimated 125 million tons at least, program costs would have been astronomi-

cal, and farmers would have received at least \$3 billion less than they did for the 1961-64 crops.

Secretary FREEMAN. Title II of the proposed bill would extend the voluntary feed grain program that has proved so successful. It would continue all the major features of the program including the authority to extend a portion of price support in the form of payment-in-kind.

The alternative to new feed grain legislation is a return to the problems of the 1950's, with no provisions for diverting acreage from production. Prices would be supported between 50 and 90 percent of parity, but at a level which would not result in increasing CCC corn stocks. This, in effect, would mean the minimum level of about 75 to 80 cents a bushel for corn. The increased yields and land available for production would mean that the gains of the past 4 years in reducing feed grain stocks would be lost in probably only 2 years. Returns from feed grain would be down, and low feed prices would eventually spread as a disruptive influence to the livestock-dairy-poultry economy.

The CHAIRMAN. Mr. Secretary, except for the fact we have this voluntary program do you believe that the production per acre would have increased to the extent it did?

Secretary FREEMAN. Yes; I think the voluntary program has had a relatively small effect on the increased production per acre.

The CHAIRMAN. And you think the farmer would spend a lot for fertilizer for 80-cent corn?

Secretary FREEMAN. Yes, and they would continue to spend money for fertilizer for 80-cent corn. They would continue to produce all they could until they were literally driven off the land and someone else would take the land and farm it. I think we have to look at least 5 years down the road before 80-cent corn would result in any significant decrease in production and by that time we would have an agricultural recession that would affect the total national economy.

The CHAIRMAN. Well, I wish I could agree with you.

Proceed.

Secretary FREEMAN. No one will deny that, in terms of total dollars, the feed grain program is expensive. But in relation to the number of farmers who participate in it, or in terms of the number of acres or cost to value of production, the feed grain program costs less than any other program for basic farm commodities. The feed grain program, directly or indirectly, affects more farmers than any other program. The farmer who grows grain for cash, or who feeds his production to livestock, or the livestock or poultry producers who buy his feed—all these are tied to the program, and together they account for the largest single segment of the agricultural economy. Stability in livestock and poultry begins with stability in the feed grain economy. Title II of this legislation would enable the stability we have achieved today to continue.

The CHAIRMAN. Would you place in the record at this point the additional number of farmers who are growing grains for sale, for cash, as you put here?

Secretary FREEMAN. Yes.

The CHAIRMAN. Because it is my belief that it has increased considerably and the reason, of course, is that we have made it attractive for farmers to grow corn and other feed grains, to grow it for sale instead of for feeding. At one time, as you no doubt know, as much

as 85 percent of the corn that was produced was fed on the farm. But we seem to be getting away from that to some extent, and if you could furnish for the record the number of farms that are now growing almost exclusively the feed grains for sale.

Secretary FREEMAN. Very good, sir; I will certainly do that.
(The information referred to follows:)

STATEMENT REGARDING INCREASED PROPORTION OF FEED GRAINS SOLD OFF
FARMS—1949–64

The proportion of feed grains sold off of the farms where it was produced has risen steadily for the last 15 years—from about a third in 1949 to a half in 1964. Contributing to this increased proportion sold were the shift from production of other cash crops, especially wheat and cotton, to production of feed grain, an increase in the quantity of feed grains fed to livestock, and a decrease in the number of farmers selling livestock and livestock products.

From 1952 to 1953, the most recent years when production of most major crops was unrestricted by allotments, to 1959–60, the base years for the feed grain programs, the acreage of wheat and cotton harvested declined by 27.5 million. Some of this acreage was shifted to the production of feed grains as the acreages harvested of corn, oats, barley, and grain sorghum rose 6.4 million during the same period. From 1959–60 to 1964, the acreage of wheat and cotton harvested declined another 3.8 million acres, but feed grains harvested declined 28.9 million acres.

Between 1952–53 and 1959–60, acreages of cotton and wheat were reduced by the allotment and marketing quota program, but there were no restraints imposed on the production of feed grains. The acreages of cotton and wheat declined, but the acreage of grain sorghum nearly tripled. Much of this shift occurred in the Southern Plains where most of the grain sorghum is produced.

Since 1959–60, many of the surplus feed grain producing farms have reduced their acreages of these crops by participating in the feed grain programs. A study of the 1962 feed grain farms shows that in the Corn Belt, the Southern High Plains, and in the Pacific Northwest, the proportion of farms participating in the program in each area was higher among those having surplus production than among all farms in the areas. Furthermore, participation in the program was highest in the Southern High Plains, the area with the largest proportion of surplus producers. Thus the feed grain program undoubtedly reduced the amount of feed grains entering the marketing channels below what it otherwise would be.

The increase in livestock production and its concentration on fewer farms also has led to an increase in the proportion of feed grain entering into the marketing channels. From 1949 to 1959, the tonnage of feed grains fed to livestock rose from 95 million tons to 117 million tons, or an increase of 23 percent. During the same period, the number of farms selling livestock and livestock products as reported by the Census of Agriculture declined by about one-third. The 1964 census undoubtedly will show a further decline. In the meantime, the quantity of feed grains fed continued to rise.

Value of sales as a percent of value of production, crops of 1949–64, United States

Year	Corn for grain	Grain sorghum	Barley	Oats	4 feed grains
1949	31	71	62	23	33
1950	28	68	65	24	31
1951	28	70	61	24	31
1952	36	70	62	24	36
1953	37	67	65	26	38
1954	39	79	67	28	41
1955	40	77	65	26	41
1956	41	77	67	27	42
1957	39	77	68	27	43
1958	40	75	69	27	44
1959	44	75	69	27	46
1960	45	75	67	29	47
1961	41	74	68	27	44
1962	43	75	68	27	46
1963	46	76	70	29	49
1964	47	76	72	29	50

Senator MONTROYA. You made the statement here that the stability in livestock and poultry begins with the stability in the feed grain economy, and I noticed that in previous debates concerning the passage of this particular feature of the bill in the Congress that the poultry producers have always espoused a free market on grain to be able to buy grain at low prices.

Will you explain the economics for both the poultry and livestock producers and the producer of feed grains and this stability about which you speak?

Secretary FREEMAN. Over an extended period of years, Senator Montoya, as I know you are fully aware, the adage of cheap grain means cheap hogs, cheap cattle, and cheap poultry. This has been proven again and again. With 80-cent corn and relative values on other feed grains, the net result would be a very rapid buildup of production in poultry, in cattle, in hogs. It would have an effect on dairy as well. As the production moved into the market, we would suffer a sharp decrease in price, which would have a pronounced adverse effect on the producers of those commodities as well. The balance is a very important and very fragile one, and I would say that I believe that the stability which we have enjoyed—which permits adequate forward planning and is not an incentive for crash production—this stability has contributed significantly to the healthy situation in beef and pork prices. It has also contributed to evening out the overproduction cycle, which was triggered primarily by the very low grain prices that were moving down progressively—moving from about \$1.50 for the 1954 crop to about \$1 for the 1960 crop—and this cycle contributed significantly to the break in cattle prices last year.

Senator MONTROYA. No doubt the Department has made some statistical studies of the effect of low grain prices and high production upon the price of livestock and poultry.

Could you insert in the record the result of those studies and the statistics on a year-by-year basis?

Secretary FREEMAN. Be very happy to.

(The information referred to follows:)

THE INFLUENCE OF FEED PRICES ON STABILITY AND GROWTH IN THE LIVESTOCK INDUSTRY

It is well recognized that feed costs are an important factor in the livestock industry, a factor that affects not only the year-to-year changes in livestock production, but also the long-term growth in output.

Current estimates indicate that feed concentrate costs represent about 50 percent of the total value of livestock production (in terms of farm prices). For some livestock and livestock products, the percentage of total costs represented by concentrate feeds is much higher. For hogs and poultry products, concentrate costs average about 60 to 70 percent of the value of the product. Because cattle are fed large quantities of roughage, concentrate feed costs for fed cattle represent about 40 percent of total product value.

Given the importance of feed in the total cost of producing livestock and products, fluctuations in feed costs as well as changes in their level significantly affect year-to-year changes as well as long-term growth in livestock production.

Our statistical analyses indicate that, in general, a 10-percent change in feed prices leads to a change in the opposite direction of around 1½ percent in total production of livestock and products. But production changes also lead to price and income changes. For example, a 10-percent increase in feed prices would result in a cutback of around 1½ percent in production of livestock, an increase of around 5 or 6 percent in livestock product prices, and an increase of some 4 or 5 percent in cash receipts for livestock products. It should be noted that the impact of changing feed prices on livestock production varies with longrun and

shortrun periods. It also varies for different types of livestock because of the nature of the production cycles.

In the recent years, 1962-64, annual variations in the price of corn, hogs, and cattle were substantially smaller than in the decades of 1920 and 1950. Compared with the past 15 years, annual variations were greater in the 1920's when there were no price-support programs. Moreover, average annual variations in corn, hog, and cattle prices were larger in the 1950 decade than in the years 1962-64.

The table below shows annual average variation in prices received in the 1920's, 1950's and 1962-64:

Average annual variation in prices received by farmers for cattle, hogs, and corn (specified periods)

[In percent]

Period	Average annual percentage change from previous year in prices received by farmers for—		
	Cattle	Hogs	Corn
1920-29	10.5	18.6	26.0
1950-59	14.4	14.0	7.7
1962-64	7.2	3.7	3.1

Over the longer run, if feed prices were sufficiently depressed, output of major livestock products may expand faster than market demand and, thus, seriously depress livestock product prices. Without farm programs designed to reduce large carryover stocks of feed grains and maintain feed grain prices, it has been estimated that corn and other feed grain prices would have declined sharply. If feed prices were to drop as many economists have predicted without programs, such declines would have a dramatic unstabilizing effect on the livestock sector. For example, a decline in feed grain prices of around one-third would, over a period of years, step up output of livestock products, possibly by as much as 5 or 6 percent and result in livestock product prices some 20 to 25 percent lower.

Stabilizing of feed prices, of course, does not assure complete stability in livestock production and prices. Many other forces may have unstabilizing effects. These include changes in consumer income and tastes, imports and exports, technology, and even weather. Such factors may at times reinforce or offset the influence of livestock feed price relationships. Some of these "other forces" have been important in recent years. The annual change in the buying power of consumers has varied since 1960, from virtually no change to an increase of nearly 4½ percent. There have been sizeable year-to-year variations in both exports and imports of meat and poultry since 1960. And rapid advances in technology have resulted in gains in the efficiency of feeding and in the organization of management of feedlots.

LIVESTOCK

Senator COOPER. Would you also put in the record figures showing the population of cattle in 1963, 1964, and 1965, and average prices?

Secretary FREEMAN. Yes, sir; very happy to do so.

(The information referred to follows:)

Cattle and calves on farms and average price received by farmers for cattle

Year	Jan. 1 cattle inventory	Average prices received by farmers
1963	1,000 head 103,736	19.90
1964	106,743	18.00
1965	107,152	¹ 18.94

¹ January-May.

The CHAIRMAN. In line with the questions asked by Senator Montoya, why is it, with the prices of corn and other feed grains being stable more or less for the last 4 years, have we had such a drop in cattle prices and even poultry in the last 2 years? What caused that?

Secretary FREEMAN. The reason for last year was the low-grain price and the uncertainty that existed back in 1959-60.

The CHAIRMAN. But your feed prices were stable?

Secretary FREEMAN. No, no; they had been going down very rapidly during the 1950's.

The CHAIRMAN. No, no; but this occurred in the last 2 years, and you have had stable corn and other feed grain prices for the last 4 years.

Secretary FREEMAN. The breeding of the cattle and the cattle cycle runs 6 years or more. The uncertainty and the very low prices that took place in the late 1950's were a contributing factor to this cycle. Chickens are an exception.

The CHAIRMAN. Why should it be an exception?

Secretary FREEMAN. Because short cycle adjustments can be made quickly.

The CHAIRMAN. And hog prices went down 2 years ago. They are going up a little now, but it would seem to me that your argument that this stability keeps the cattle prices steady, and I repeat as far as I can remember we have had stable prices in feed grains for the past 2 or 3 years, but notwithstanding that you have had a difference in the cost, I mean in the price of meat, and we have had quite a few farmers kicking up some dust about it.

I merely mention that because it would seem to me that the cause there has been overproduction of meat as well as—that is, in various forms as poultry, cattle—as well as hogs.

Secretary FREEMAN. It has been——

The CHAIRMAN. Yes.

Secretary FREEMAN. The hog situation has been—the prices have been pretty good generally.

The CHAIRMAN. You mean recently, in the last 2 years?

Secretary FREEMAN. They have been fairly strong recently, and actually since the inception of the feed grain program we began to move the price up to a little stronger level.

The CHAIRMAN. You have had this program now since 1961.

Secretary FREEMAN. Yes; and hog prices have been pretty good in the 1961-62 period and again more recently.

The CHAIRMAN. You have had a downward trend since 1961, I am sure.

Secretary FREEMAN. I think the record would show, and I will be happy to submit this, that the trend and the level has been more stable with less fluctuation and less pronounced peaks and valleys in hogs than was the case from 1955 to 1961. Also in poultry, though as you point out poultry is short cycled.

We will be happy to submit that for the record.

The CHAIRMAN. Well, if you put that in the record, I think it will clarify the answers you gave to Senator Montoya there, and the colloquy we have had, because I must confess to this, that I have been on this committee now for over 28 years and the reasons advanced for not putting corn and other feed grains under the same system as other production; that is, by allocating acres, such as in cotton, was that if we were able to keep the feed grains steady that it would have the effect of keeping the price of meat at a steady rate.

But it has not worked that way at all times and that is why I am inviting you to to put in the record this trend since, let us say, 1960.

Secretary FREEMAN. I will certainly supply that.

The CHAIRMAN. In all production, poultry, cattle, and other meat-producing animals.

Secretary FREEMAN. I will be happy to do that.

(The information referred to follows:)

As the table below shows, the annual change in hog prices to farmers in 1962-64 averaged 3.7 percent compared with 16.2 percent in 1955-61; for cattle, 7.2 percent compared with 9.1 percent in the earlier periods; for broilers, 5.4 percent compared with 10.4 percent in 1955-61; for lambs, 8.1 percent compared with 6.3 percent. The change in the price of corn averaged 3.1 percent in 1962-64 compared with 6.3 percent in 1955-61.

Meat production and prices received by farmers for livestock and corn, 1955-61 and 1962-64

Year	Total red meat		Beef				Pork			
	Total meat production (million pounds)	Percent change from previous year	Total production (million pounds)	Percent change from previous year	Average price received by farmers for cattle	Percent change from previous year	Total production (million pounds)	Percent change from previous year	Average price received by farmers for hogs	Percent change from previous year
1955	26,895	+6.7	13,569	+4.7	\$15.60	-2.5	10,990	+11.3	\$15.00	-30.6
1956	28,035	+4.2	14,462	+6.6	14.90	-4.5	11,200	+1.9	14.40	-4.0
1957	26,859	-4.2	14,202	-1.8	17.20	+15.4	10,424	-6.9	17.80	+23.6
1958	25,658	-4.5	13,330	-6.1	21.90	+27.3	10,454	+3	19.60	+10.1
1959	27,319	+6.5	13,580	+1.9	22.60	+3.2	11,993	+14.7	14.10	-28.1
1960	28,208	+3.3	14,727	+8.4	20.40	-9.7	11,605	-3.2	15.30	+8.5
1961	28,585	+1.3	15,298	+3.9	20.20	-1.0	11,411	-1.7	16.60	+8.5
Average percentage change 1955-61		4.4		4.8		9.1		5.7		16.2
1962	28,956	+1.3	15,296	0	21.30	+5.4	11,836	+3.7	16.30	-1.8
1963	30,561	+5.5	16,425	+7.4	19.90	-6.6	12,439	+5.1	14.90	-8.6
1964	32,673	+6.9	18,424	+12.2	18.00	-9.5	12,523	+7	14.80	-7
Average percentage change 1962-64		4.6		6.5		7.2		3.2		3.7

Year	Lamb and mutton			Broilers			Corn	
	Total pro- duction (mil- lion pounds)	Percent change from previous year	Average price received by farmers for lamb	Percent change from previous year	Average price received by farmers for broilers (cents)	Percent change from previous year	Average price received by farmers for corn	Percent change from previous year
1955-----	758	+3.2	\$18.40	-3.7	2,322	+3.7		
1956-----	741	-2.2	18.50	+7.5	3,000	+29.2	\$1.35	-5.6
1957-----	707	-4.6	19.90	+7.6	3,325	+10.8	1.29	-4.4
1958-----	688	-2.7	21.00	+5.5	3,910	+17.6	1.11	-14.0
1959-----	738	+7.3	18.70	-11.0	4,149	+6.1	1.12	+4.9
1960-----	768	+4.1	17.90	-4.3	4,332	+4.4	1.04	-7.1
1961-----	832	+8.3	15.80	-11.7	4,926	+13.7	1.00	-3.8
Average percentage change							1.08	+8.0
1955-61-----		4.6		6.3		12.2		6.3
1962-----	809	-2.8	17.80	+12.7	4,980	+1.1		+1.9
1963-----	770	-4.8	18.20	+2.2	5,244	+5.3	1.10	-1.9
1964-----	715	-7.1	19.90	+9.3	5,417	+3.3	1.09	+6.4
Average percentage change		4.9		8.1		3.2	1.16	
1962-64-----						5.4		3.1

Senator MONTROYA. May I ask one question to clarify the colloquy?
The CHAIRMAN. Yes, indeed.

Senator MONTROYA. With respect to the downward spiral in livestock prices in the last few years and then the upward spiral, was not the price decline caused by overproduction, and overproduction cycle that set it?

Secretary FREEMAN. Yes, sir.

Senator MONTROYA. And the same with poultry?

Secretary FREEMAN. Yes, sir.

Senator MONTROYA. Is that correct?

Secretary FREEMAN. Yes, sir.

Senator MONTROYA. And would you say that the setting in of stability of feed grain prices has more or less tended to discourage a more rapid rise in livestock production as well as poultry prices, and also that it has had a deterring effect which otherwise would have had a very bad effect on the price spiral?

Secretary FREEMAN. Yes, sir.

Senator MONTROYA. Is that what you are trying to tell us here?

Secretary FREEMAN. Exactly, that the gradual strengthening and stability of feed grain prices have had a healthy effect on both hogs and cattle prices.

Senator MONTROYA. Has the overproduction in the livestock industry reversed itself?

Secretary FREEMAN. Yes, at this point, that is the current estimate of the livestock situation.

Senator MONTROYA. What about the poultry situation?

Secretary FREEMAN. The poultry situation for the moment is fairly strong, but I say this advisedly because they can turn that one on and off almost as quick as you can turn on the water in the bathtub.

Senator MONTROYA. Thank you.

The CHAIRMAN. I have before me the hog prices of May of 1964, which were 14.3 cents. In 1965, the same month, 19.4, and yet your feed grains are about the same price. Take beef, in May of 1964, it was 17.6 cents, today it is 20.6 cents, with all feed grains at almost the same price here you had a steady viable market and the farmers knew in advance what the price would be a year hence and yet we have had that increase. I think our theory does not work too well. Ours—yours, I mean.

Secretary FREEMAN. I thought for a minute I was making progress.

The CHAIRMAN. Mr. Secretary, I notice that we are about to get into the rice title of your statement, and we have only 2 minutes to go. So suppose we recess now until 2 o'clock and there may be some questions to be asked this afternoon.

(Whereupon, at 12 noon, the committee recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Senator Young has a few questions he would like to ask you.

WHEAT

Senator YOUNG. Mr. Secretary, if we could go back in the record to the point where I asked about the cost figures on the various wheat programs, I would like to have some additional information.

Would you supply for the record a listing of the comparative costs of the wheat programs proposed in S. 2025 and S. 1702? This should include an item-by-item breakdown of the following costs:

1. Carrying charges.
2. Net loans and purchases.
3. Sales proceeds.
4. Price support payments.
5. Acreage diversion payments.
6. Commodity export programs.
7. Other costs.
8. Total price support and related costs (total of items 1 through 7).
9. Public Law 480 costs.
10. International Wheat Agreement costs.
11. Total program costs (total of items 8 through 10).

Also, please supply for the record a breakdown of producer income under these two programs. This would include:

1. Wheat income.
2. Price support payments.
3. Certificate payments.
4. Acreage diversion payments.
5. Other.
6. Total wheat income to producers.

Also, please outline the assumptions on which these conclusions are drawn, including:

1. Extent of program participation assumed.
2. Price support levels assumed.
3. Income derived from certificate sales to processors.

If we could have these figures, it would be very helpful.

Secretary FREEMAN. Yes, sir; we certainly will.

(For information requested above, see p. 90.)

FEED GRAINS

The CHAIRMAN. Before we take up rice, I would like to ask specifically about the feed-grain program, how it changes from the one in 1961.

Under the 1961 program, the support for corn was \$1.20 a bushel, and in order for a farmer to be able to get that, it was required that he idle 20 percent of his land, that is, that he not plant the corn. For this he got a payment of 50 percent of the normal production, and then he was permitted to set aside 20 percent more, and the payments in that case would be 60 percent of normal production.

Now, for 1962 the program was the same as the one for 1961. In 1963 the method of figuring the amount that the farmer would receive differs. We had a direct payment of 18 cents plus a loan program of \$1.07 per bushel, making a total of \$1.25 for the compliers, and in order to be able to get that amount, the farmer is required to set aside 20 percent of his acres, and the payments were at 20 percent of the normal production, and the permissible amount that he could set aside was another 20 percent, for which he obtained 50 percent of the normal production.

For 1964 the support price was \$1.10, and the direct payment was 15 cents a bushel, thereby making it possible for him to receive the

\$1.25. In order to be able to obtain that, it was required that 20 percent of his acreage be set aside, on which he received 20 percent of the normal production, and he was permitted to set aside an additional 30 percent of his acreage, and if more than 20 percent but less than 40 percent, the payment rate was at 50 percent on the excess of 20-percent reduction. If 40 percent or more diverted, the payment rate was at 50 percent on all the acreage that was diverted.

Now this year the loan was reduced from \$1.10 from last year to \$1.05, but the direct payment was increased from 15 to 20 cents, making it possible for the farmer to obtain \$1.25 if he complied. In order to obtain that amount, he had to comply by setting aside 20 percent of his acreage for which he was paid 20 percent of the normal production, and he was permitted to set aside an additional 30 percent.

In fact, the program for this year is the same as last year, with the exception of the price support being \$1.05 and with a 20-cent direct payment.

I wonder if you could tell us how does the bill that you propose for corn and other feed grain differ from the past programs, particularly the last 2 years?

Secretary FREEMAN. It does not differ from the past programs except that there was a limitation in the bill previously that you could not pay for diversion more than 50 percent of the county loan level times the yield. That limitation is removed in the bill as submitted, giving more discretion whereby the Secretary could develop the combination here that would bring the best results at the lowest cost.

The CHAIRMAN. Is the minimum 20 percent of the acreage?

Secretary FREEMAN. There is no minimum in the bill as such as it now stands.

The CHAIRMAN. In other words, you can make it 5 percent if you want?

Secretary FREEMAN. You could make it 5 percent.

The CHAIRMAN. You could make it 20 percent if you want?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Or 50 percent?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Now, what is the advantage of not putting at least a minimum in that?

Secretary FREEMAN. I would see no objection to putting a minimum in. However, we may need the kind of flexibility as proposed, depending upon conditions in the future. We have always required at least 20 percent under the program, but perhaps a lesser minimum would be more desirable for the future.

Therefore, I would have no objection to some guidelines or minimum, but I would not think it would be wise to tie the Department's hands too tight on this question.

The CHAIRMAN. Now, what about the permissible acreage to be over and above the minimum you fix?

Secretary FREEMAN. This again is subject to the Secretary's discretion, and we would hope that it might be left that way, because conditions and circumstances change, and weather and crop prospects and predictions and attitudes.

We try and work out very methodically and very carefully the combination that will get the greatest compliance with the least cost. I

think it would be difficult to foresee all the circumstances we might be faced with when that decision would have to be made.

The CHAIRMAN. In respect to the support price, does it remain the same as now?

Secretary FREEMAN. As you pointed out, the loan rate was lowered last year. The support price was held at the same level. That again is subject to the 65 to 90 percent discretionary judgment of the Secretary.

The CHAIRMAN. And in respect to the payments on diverted acres, that is left entirely to you. If you desire let's say to have the farmer set aside 20 percent, you can pay him from what to what of the normal production?

What I want Mr. Secretary, is to have clarified for the record several points concerning the diverted acres on wheat and feed grains, the payment rates on those diverted acres, and the use to which those diverted acres may be put. I want to first ask you what is the authority contained in the administration bill for payments on diverted acres?

Secretary FREEMAN. Mr. Chairman, I will take feed grains first. Legislation authorizing the 1964 and 1965 programs gave the Secretary discretion regarding the percentage of the base to be diverted and the level of payments. The legislation gave complete discretion regarding the percentage that was required to be diverted. There was a ceiling set on total diversion, however. The total acreage diverted for payment could not exceed 50 percent of the base or 25 acres, whichever was greater. There was also a limit on the maximum payment that could be made for diversion. The legislation required that they be determined by the Secretary but required that they not be in excess of 50 percent of the total support price on normal production of the diverted acreage.

S. 1702 provides exactly the same degree of discretion to the Secretary as the old legislation regarding the amount of diversion required and the total acreage which could be diverted for payment.

The limitation regarding maximum payment is not included in S. 1702, but rather definite guidelines are provided. The bill provides—payments shall be made at such rate or rates as the Secretary determines will provide producers with a fair and reasonable return for the acreage diverted, taking into consideration the loss of production on such acreage, any savings in cost which might result from such diversion, the incentive necessary to achieve the acreage reduction goal, and the payments in kind made available under section 105(e) of the Agricultural Act of 1949, as amended.

The CHAIRMAN. Secretary Freeman, would you please explain for the committee why you are requesting this different authority from what you have had in the past?

Secretary FREEMAN. I would be happy to, Mr. Chairman. We have learned a great deal during the administration of the feed grain program over the past 4 years. We are trying to capitalize on that knowledge in terms of improving the program from the standpoint of its effectiveness in reducing stocks and increasing income and operating smoothly for all concerned. We believe that as we approach a desirable level of carryover stocks in feed grains we need additional flexibility in administering the various portions of this bill in the years ahead. With the proposed legislation, for example, we could place greater emphasis on the diversion payment as an inducement for compliance. In such case, obviously we would reduce the emphasis on the price sup-

port payment. On the other hand, should circumstances in some year in the future so dictate we could place more emphasis on the price support payment and substantially less on the diverted acre payment. In either case we will avoid one of the problems we have found with the present authority—that is, as producers divert beyond the minimum they find themselves sacrificing the price-support payments and find that the diverted acres payment is not sufficient to compensate for that loss. Thus in effect we find that in looking for diversion beyond the minimum we are in effect bidding against ourselves. We believe that this results in a less effective program than under the authority requested in S. 1702.

The CHAIRMAN. Mr. Secretary, let us move to wheat. What is the authority in the bill for diverted acre payments on wheat?

Secretary FREEMAN. The provisions for wheat are quite similar to those for feed grains, Mr. Chairman. Diversion payments would be made at rates which the Secretary determines are fair and reasonable, considering the loss of production on such acreage based on the projected farm yield, any savings in cost which might result from the diversion, the incentive necessary to obtain participation in the program, and the income objectives of the act.

The CHAIRMAN. What uses can now be made on diverted acres? Can any crops be produced on those acres?

Secretary FREEMAN. Yes, sir. For the 1964 and 1965 feed grain programs, the Secretary could permit guar, sesame, safflower, sunflower, castor beans, mustard seed, and flax to be produced on diverted acreage, if he determined that they were not in surplus supply and would not be if permitted to be grown on such acreage. For the wheat program the authority was essentially the same, except that mustard seed was not included in the list of crops.

The CHAIRMAN. What would be the authority under S. 1702, Mr. Secretary, for planting crops on diverted acres?

Secretary FREEMAN. The list of crops is the same as under the legislation I just discussed, except that mustard seed would be added to the list for wheat, and soybeans would be included in the list for both wheat and feed grains. Also the criteria governing the Secretary's determination is more stringent than under the other legislation. He must determine that the production of the commodity is needed to provide an adequate supply, is not likely to increase the cost of the price support program and will not adversely affect farm income.

The CHAIRMAN. Now, Mr. Secretary, let me review the authority for payments as contained in the current authority and what is requested in S. 1702 with respect to crops that can be planted on diverted acres.

Secretary FREEMAN. Under the old legislation and under S. 1702, a diversion payment could be made on acreage used for the production of authorized crops. Under both, the maximum payment that could be made would be no more than half the rate which would be paid if the acreage were diverted to conservation uses.

The CHAIRMAN. Now we have clarified for the record what authority exists under the present law, and the authority you are requesting under S. 1702. As you know, Mr. Secretary, the committee prefers some guidelines, some minimums, so that we are sure that perhaps not too much authority is given to some future Secretary of Agriculture.

Would you please indicate how you would intend to use this authority, particularly relating to crops which could be grown on diverted acres and the level of payments?

Secretary FREEMAN. Well, Mr. Chairman, the way in which the Department has handled this problem in the past speaks for itself. We have carefully examined the supply situation on each of these crops before authorizing their production on diverted acreage. We have considered this as well as returns from the crop in setting the payment rates. They have been set at zero for some crops and at 50 percent of the payment that would otherwise be made on others. We would continue to exercise the same caution and restraint in the future.

SOYBEANS

The new one on the list is soybeans. As you know, soybeans have in several recent years been in short supply. Only once has the carry-over exceeded 1 month's utilization. Soybeans are presently over \$3 a bushel, Chicago, with equivalently high prices for both oil and meal. Unduly high prices reduce U.S. exports, increase foreign production of competing export countries and encourage substitute products such as urea for soybean meal. What we strive for is a supply of soybeans that will maximize farm income without damaging the demand for soybeans and soybean products. Providing authority for growing soybeans on acreage diverted from feed grains would be a way of increasing soybean acreages in years when there was a clear need for expansion. Let me say, however, that this authority would not be used unless that need was clear. If I had the authority for the 1965 crop, I would not exercise it. Further, in years where there was a clear need for an increased acreage of soybeans, I would probably make no diversion payment on such acreage. Generally speaking, the per acre returns for soybeans are much greater than for the other substitute crops on the list. I very much doubt if a diversion payment would be required to obtain adequate production of soybeans on diverted acres. For all of these crops the guidelines in S. 1702 are clear and more stringent than under the old legislation. They provide an effective limitation on payments for these authorized crops.

There is one other provision in S. 1702 that relates to soybeans, Mr. Chairman. The bill would permit authorizing soybean production on feed grain acres which are not diverted. For example, the farmer who agreed to divert 30 percent to conservation uses under the 1965 program was permitted to plant feed grains on the remaining 70 percent and receive price-support payments on the normal production of that acreage. S. 1702 would make it possible to permit him to grow either feed grains or soybeans on that acreage without loss of benefits. Use of this authority would also be discretionary. When more soybeans were needed, this provision would mean more soybeans and less feed grain production. This acreage substitution would probably not be substantial in the corn-soybean belt where corn yields are high. It might, however, be important in the fringe producing areas. To the degree acreage would be thus substituted, the feed grain surplus would be reduced and CCC's feed grain acquisitions and related costs would be reduced.

The CHAIRMAN. All right, are there are further questions on the feed grain program?

Senator Mondale?

Senator MONDALE. Mr. Chairman, our farmers in Minnesota are of the belief that the bean prices thus far have been quite good. They are very satisfied with the return they have received on the production of soybeans. They are somewhat concerned about whether this provision will permit the planting of beans on diverted acres or permitted acres, and might contribute to pressure on the market. This fear is accentuated now because of the late spring we are having, and many of the farmers are going to shift to beans anyway because of the short growing season.

Do you have some information about the projected demand for soybeans in the domestic and world market which indicates whether we are going to need to expand production?

Secretary FREEMAN. Senator, I think, the best way to answer that question would be just to say that under the current circumstances, if this bill were law, I would not exercise the discretion to permit the planting of soybeans. The indications are there will be two and a half million more acres of soybeans. We do not need any more soybeans and I would not permit their being substituted.

Senator MONDALE. How do you predict demand for soybeans?

Is it going to continue to rise substantially?

Secretary FREEMAN. Over the last 10 years the demand for soybeans has steadily climbed. When I increased the price support on soybeans from \$1.85 to \$2.30 in 1961, a lot of people, including those in the soybean industry, said that this was the death knell of soybeans, and this price that brought about a better income to farmers was going to destroy the markets, and they were great prophets of doom and gloom but they proved to be wrong, happily, and the markets have continued to grow—both domestic and foreign.

Senator YOUNG. You have a memory like an elephant.

Secretary FREEMAN. Yes. There are not too many like that I can remember, Senator.

The CHAIRMAN. You remember the good ones.

Secretary FREEMAN. Yes, that is right. But that does not mean that there is no end to it, and we do have to have an adequate supply.

It is my personal judgment that if the price of soybeans gets much over \$3 a bushel, we will tend to bring some substitutes into play and will encourage production in other countries and that will affect our outlets. So the problem is to get a reasonable price, but not allow that price to run up so high that it will destroy the market. That is the reason why it is felt that the discretionary authority to act in this fashion to encourage more soybeans, if the situation required it, is sound.

I am aware of the apprehension to which you refer, and I would only say, as I said earlier, that under these current circumstances I would not exercise that discretion.

Senator MONDALE. So in other words, if this discretionary authority were granted under the present conditions of the market, you would not plan on approving it, but if later conditions arose which demanded a larger growth of beans, you would?

Secretary FREEMAN. I would, that is correct.

The CHAIRMAN. I desire to go back to this soybean planting.

I wish you would explain for the record your understanding of the power that you would have under this corn program, should the bill be enacted as written, particularly with respect to your payments on diverted acres, and where you would permit the planting of soybeans, the conditions under which he would get price supports, and in addition to whatever he would obtain from the sale of soybeans grown on those diverted acres, because there seems to be a little difference among us, that is our economist here and our attorney as to what you have just said.

So I wish you would set it out clearly, in order to have no mistake about it.

I spoke to Mr. Jaenke just now and asked him—and I am sure the committee would not object to that—to confer with our attorney and with our economist to the end that we will have the questions answered, and even the questions propounded so that we will not make any mistake about it.

I think it is important for us to know the extent to which you can permit the planting of soybeans, in fact any other crop on these diverted acres, and the authority that would be conferred on you to permit the planting of these soybeans, and then in addition to what the farmer would get on these diverted acres from soybean planting, the payments you can make on corn supports.

Secretary FREEMAN. The provision is that there can be a payment for crops that are substituted on diverted acres up to 50 percent of the diversion payment and applicable if the acreage were devoted to conservation uses. What I said and perhaps did not make myself clear, that in the case of soybeans I would not propose that there be any payment because the income from soybeans is a significant one.

It would be a little different situation in the case where you would have the price-support payment that has been fixed for feed grains. In that instance, if soybeans were substituted for feed grain within the amount permitted to be planted, the price support payment would apply.

The CHAIRMAN. But you would have the power though?

Secretary FREEMAN. I could make up to half the diversion payment applicable if the acreage were devoted to conservation uses.

The CHAIRMAN. I know, but you are saying now, you give us an idea of what you would not do.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. But the fact remains though—I hope and pray that Orville Freeman would not drop dead by the time he gets back to his office.

Secretary FREEMAN. Thank you.

The CHAIRMAN. But we may have somebody to succeed you who would not think as you do. Do you get the idea?

Secretary FREEMAN. That is right, of course.

The CHAIRMAN. And I believe that it might be well—I am just speaking out loud now and taking a negative attitude—I believe that we ought to put some kind of limitation on the Secretary of Agriculture in that respect.

Secretary FREEMAN. I would not have any objection. I would not think that it would be sound to make an additional payment for soybeans to be substituted, planted on diverted acres, and if the committee saw fit to write that in, we would have no objection.

As it now reads, there are five or six different crops which do not have too much income.

The CHAIRMAN. Yes.

Secretary FREEMAN. And that is the reason why the committee sees fit to have some discretion on this according to market conditions.

Senator AIKEN. What could be planted with your permission besides buckwheat on diverted acres?

Secretary FREEMAN. Not buckwheat. Sunflower, safflower, sesame, flaxseed, mustard seed, guar, castor beans, and soybeans.

Senator AIKEN. No buckwheat, no——

Mr. JAENKE. The crops are specified in the law.

Senator AIKEN. No cabbage?

The CHAIRMAN. They have added soybeans and the same rule would apply with respect to the payment on soybeans as applies on these others, and I believe that we ought to make a differential.

Senator YOUNG. Mr. Secretary, would you have the same authority with respect to the planting of soybeans on acres diverted from wheat, corn, or barley, as you have in the case of acreage diverted from cotton?

The CHAIRMAN. Do we have it under wheat, do you mean?

Senator YOUNG. Yes?

Secretary FREEMAN. No.

Senator YOUNG. You would broaden this authority just for corn?

Secretary FREEMAN. And wheat.

The CHAIRMAN. Corn and other feed grains.

Secretary FREEMAN. Corn feed grain and wheat.

The CHAIRMAN. You would have the discretionary authority to plant soybeans on diverted wheat acreage?

Secretary FREEMAN. Yes.

The CHAIRMAN. You do not have it now though?

Secretary FREEMAN. No.

The CHAIRMAN. You would add wheat?

Secretary FREEMAN. Add soybeans to the current list under this bill.

The CHAIRMAN. Since he raised the question of wheat, we were discussing corn and other feed grains, what would be your formula there?

In other words, if you could give us a little idea of what you could do.

Secretary FREEMAN. You could do the same thing for wheat that we just explained you could do for feed grains.

The CHAIRMAN. In other words, on the diverted acres?

Secretary FREEMAN. On the diverted acres, but not on the certificated——

The CHAIRMAN. I understand.

On the diverted acres what you could do is permit the planting of soybeans?

Secretary FREEMAN. Correct.

The CHAIRMAN. And whatever the farmer makes from these soybeans would be his, and in addition to that, you could pay him support price?

Secretary FREEMAN. No. Under the law we could pay up to half of the regular diversion payment.

The CHAIRMAN. What is that?

Mr. JAENKE. He could give him half of the diversion payment which he would have earned had he not planted soybeans on those diverted acres.

The CHAIRMAN. Yes.

In other words, this half he would obtain plus the proceeds from the soybeans that he planted on those diverted acres.

Mr. JAENKE. That is a possibility.

The CHAIRMAN. I wanted to make that plain.

Any further questions?

Senator AIKEN. If he produced 40 bushels of wheat—instead of producing 40 bushels he produced 30 bushels of soybeans and he got about \$90 for soybeans if he was lucky, would that mean that he would get half the value of 40 bushels of wheat besides?

Mr. JAENKE. It is half the diverted acre rate, sir.

In other words, on wheat—on wheat it would probably——

Senator AIKEN. The diverted acre rate——

Mr. JAENKE. Be \$12 to \$15 an acre. Let's say that was the diverted acreage rate on wheat. He could get half of that, or \$7.50, and be permitted to grow soybeans on those acres.

Senator AIKEN. And get all he could out of his soybeans?

Mr. JAENKE. Yes, sir.

The CHAIRMAN. Would that apply to the whole farm if the Secretary desired to permit that?

Mr. JAENKE. It would apply to the diverted acres only.

The CHAIRMAN. Let's get down to a case now.

Suppose a farmer had 200 acres of wheat. To what extent could the Secretary order or permit diverted acres? How much of those 200 acres?

Secretary FREEMAN. There is a 50-percent limit on the amount of acres that could be diverted.

The CHAIRMAN. So you could divert 100 acres?

Secretary FREEMAN. So the farmer could divert 100 acres. And then he could plant soybeans on those 100 acres.

The CHAIRMAN. Yes.

Secretary FREEMAN. And he could then get 50 percent of the diversion payment rate.

The CHAIRMAN. What would that diversion payment ordinarily amount to?

Secretary FREEMAN. This would depend on this farm, if the yield was 30 bushels per acre and the county support rate was \$1.25, why then it would be the yield times the county support rate. In this instance it would be one-half of it, or 50 percent.

The CHAIRMAN. That amounts to what?

Mr. JAENKE. \$15 to \$18 an acre.

The CHAIRMAN. \$15 to \$18?

Mr. JAENKE. In good wheat country.

The CHAIRMAN. Now if he planted soybeans on that hundred acres, he would get that \$8 to \$10 plus the proceeds from the sale of the soybeans he would grow on that hundred acres?

Mr. JAENKE. That is possible.

Secretary FREEMAN. He could.

The CHAIRMAN. I understand that, he could. I know that.

Secretary FREEMAN. Yes.

The CHAIRMAN. I am trying to go to the extreme as to what you could do.

Secretary FREEMAN. Sure.

Senator YOUNG. Would the same formula apply to both wheat and feed grains?

Secretary FREEMAN. Except there is no provision for planting soybeans on the permitted acres in wheat, that is, that percentage of his allotment production on which he earns certificates.

Senator AIKEN. Unless we write it into the bill.

Secretary FREEMAN. Unless you write it in. It could be done.

The CHAIRMAN. Any further questions? You may proceed, Mr. Secretary, with the rice title.

Secretary FREEMAN. Thank you, Mr. Chairman.

Turning now to rice, on page 21.

RICE

Title III proposes to maintain farmers' incomes from rice while substantially reducing the cost of the program. It is fair to say that the Congress and the administration have done much to strengthen the position of rice farmers and the industry.

Let me summarize a few of the actions that have been taken in the past 4 years, and the important trends that are taking place.

First, price supports were raised in 1961 to \$4.71 a hundredweight—national average—from \$4.42 in 1960. The national support price remained at \$4.71 through 1964; it has now been reduced about 5 percent, but remains at \$4.50 a hundredweight. And with rising yields, national returns should remain at 1964 levels.

The CHAIRMAN. Mr. Secretary, at that point as I remember there was a request made by the administration to raise more rice, in order to have it available to ship to Asia.

Senator AIKEN. For Sukarno.

The CHAIRMAN. Asia and other rice-producing countries where difficulties may occur, so these people who eat so much rice would not run short. Was that not the reason to encourage this production? I believe you increased the acreage.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. From a minimum of 1.6 million to 1.8 million?

Secretary FREEMAN. Actually, the chairman is correct. But the action to increase acreage which was outlined in the next paragraph was done in response to the need for rice, primarily for Public Law 480 programs. That paragraph reads:

Beginning in 1962, rice acreage was increased from the 1.6 million acres that had prevailed during the late 1950's. This year the national acreage allotment is 1,818,638 acres, virtually the same as in 1964 and about 10 percent above the minimum national allotment set in the present law.

The United States has now become the third ranking rice exporter in the world, replacing Communist China and following right behind Thailand and Burma. In 1963, our total exports amounted to over 41 million hundredweight. Something over 45 percent of this rice was exported under Public Law 480, and the remainder required an export subsidy of about \$1.60 a hundredweight in order to be competitive in world markets.

Meanwhile, rice production in the past 2 years has run 70 to 73 million hundredweight. Acre yields, under the impact of improving technology, have increased from about 2,500 pounds per acre in the early 1950's to about 4,100 pounds today, and the end is not in sight.

The rice farmer, as a result, is much better off than he was 5 years ago. From 1960 to 1964, farm returns rose 45 percent. Rice farmers have perhaps fared better in terms of income than any other commodity group except for sugar and soybeans. This improvement in grower returns is most gratifying to all of us.

We have worked hard to help achieve this, and we are most appreciative of the opportunity of working with the chairman of this committee who has given a great deal of attention to rice while at the same time he has continued his active concern with the other commodity programs that mean so much to American agriculture.

As gratifying as the present program has been in improving the lot of the ricegrower, it is increasingly apparent that something needs to be done to reduce the costs of the rice program—particularly if the producer can be protected and the gains made these past few years continued. The costs to the public have been high—due largely to the high participation of rice in the Public Law 480 program. In fiscal 1964, the overall rice program—Public Law 480, export subsidies and price support—costs a total of \$180 million which is equal to about half of the gross farm value of the crop, or about \$100 per harvested acre.

It is essential that we reduce the cost of the rice program so it is more nearly comparable in cost to other commodity programs. To do this, we have only two alternatives.

The first would be to reduce price supports to the statutory minimum of about \$4.25 per hundredweight, to reduce acreage by 10 percent to the statutory minimum of 1.6 million, and to reduce Public Law 480 programing by a third. While this would reduce program costs by some \$50 million, there are some less acceptable effects. Gross farm income from rice would be reduced by 15 to 20 percent and net income by much more. The effects of such actions would be especially serious in the case of the small rice producer. Therefore, if the Congress decides we should proceed along this line under existing authority, we suggest that special provisions be included to protect the allotment of the small rice producer as we now do in other major commodities. In addition, we would suggest that the Congress consider authority whereby the income of the small rice producer could be augmented to minimize the adverse effects of a lower price and smaller allotment.

The CHAIRMAN. What is your suggestion, Mr. Secretary, as to the first alternative?

Secretary FREEMAN. The suggestion as to one alternative would be to cut the price support and the acreage to the statutory minimum and to cut back Public Law 480 shipments by one-third.

The CHAIRMAN. And that is what you could do and may do in the event there is no change in the law?

Secretary FREEMAN. Yes, sir.

The second alternative—which I am about to recommend—would bring a reduction in costs of \$40 to \$50 million and would actually increase farm income from rice. This plan would increase a producer's return from his rice consumed domestically while pricing his export rice at competitive world levels. Farm income could be raised by some \$20 to \$25 million over the 1965 returns and \$10 to \$15 million over 1964—with special benefits for small growers.

The CHAIRMAN. Before you leave this paragraph, as I understand the administration's proposal, it would be possible for you to reduce the acreage from 1.6 million to as low as 1.4 million; am I right?

Secretary FREEMAN. Yes; it would be possible. We could go back to where we were in 1962, with a legal minimum acreage of 10 percent less—about 1.6 million acres.

The CHAIRMAN. No; no; you have got 60 million hundredweight there, and if you determine the number of acres required to produce that, it would mean to me that you could reduce the acreage from the minimum of 1.6 to 1.4 million acres.

Secretary FREEMAN. We do not think that that would happen, Mr. Chairman.

The CHAIRMAN. No; I am not saying that. I am saying you would have that power under this.

Secretary FREEMAN. It could happen; yes, sir.

The CHAIRMAN. It could; yes.

I cannot see then, if you are given this power, how you can say that your plan will increase the farmer's income, if you exercise this power that is given to you, because as I recall the amount of rice that is consumed in this country amounts to, in round figures, about 40 percent of production.

Now, if the farmer receives parity, let's say, for 40 percent of his production, and he receives world prices for 60 percent of his production, how can you figure that he would make more money than under the present program?

Secretary FREEMAN. Simply because when you calculate it out, why the combination of that blend price is more than he is now getting.

The CHAIRMAN. I have calculated that out, and it does not come to that.

Secretary FREEMAN. I think it does, Senator. If you take the full parity on 40 percent, and 60 percent of the balance at world price, it will end up with a total greater return than he would now get under the \$4.50, and certainly significantly more than he would under the minimum of \$4.22.

The CHAIRMAN. Well, you have a little, shall I call it, gadget in that whereby you can pay a greater amount to the small producer.

Secretary FREEMAN. Yes.

The CHAIRMAN. In other words, in figuring out the payment to the small producer, instead of using as a base 40 percent of the rice that is consumed abroad, you can go up to, what is it, 55 percent?

Mr. JAENKE. Yes, sir.

Secretary FREEMAN. For the small producer.

The CHAIRMAN. Up to.

Now, in figuring this additional income, I presume that you take into consideration the number of small farmers who would be paid on a basis of 55 percent consumption rather than 40 percent.

Mr. JAENKE. That is right; but—if I may interrupt, sir—without that the blend price for any producer of rice could not be less than \$4.61 per hundredweight, which is 11 cents more than the support level for 1965.

The CHAIRMAN. Is that the average price for long grain or short grain or what?

Mr. JAENKE. That is the average for all rice, sir.

The CHAIRMAN. All rice. In other words, it would be figured on the same basis as you now figure it?

Mr. JAENKE. That is right. It is comparable to the \$4.50 now.

The CHAIRMAN. Now, your differential between the short and the long grain at the moment is \$1.50, or in that neighborhood?

Mr. JAENKE. On a milled rice basis; yes, sir.

The CHAIRMAN. About \$1.50?

Mr. JAENKE. Yes, sir.

The CHAIRMAN. Now, what authority would you have under this bill to further increase this differential?

Mr. JAENKE. The same authority that is in the law now, which states that you shall set the differentials through the value factors to reflect the differences in the market prices for the different qualities and types and length of grain.

The CHAIRMAN. So you retain in the law that same provision?

Mr. JAENKE. That would not be affected at all by this, sir.

The CHAIRMAN. I know if you get the same provision, it would not. But it would be possible under the law as written to further increase this differential between long grain and short grain.

Mr. JAENKE. Or to decrease it.

The CHAIRMAN. Yes.

Mr. JAENKE. Depending on what the market price did.

The CHAIRMAN. Instead of marking it \$1.50, you might make it as much as \$2, could you not?

Mr. JAENKE. It is possible, but certainly not very probable.

The CHAIRMAN. It is possible.

Well, were you not thinking of increasing this differential?

Mr. JAENKE. No. We increased it in the 1963 and 1964 crop years. We did not change the differentials this year.

The CHAIRMAN. I know; but I mean were you not talking about it? Did you intend to do it?

Mr. JAENKE. We review each year what the value factors are and what the market prices are.

I might add that the change in value factors, and therefore in premiums, could be undertaken. You could go to the \$2 level under existing law if the basic data so indicated.

The CHAIRMAN. I understand that.

Mr. JAENKE. This would be true as well under the certificate program.

The CHAIRMAN. That is what I am saying. You would have that authority?

Mr. JAENKE. Yes.

The CHAIRMAN. To make it \$2 if you saw fit.

Of course, you could not do it arbitrarily?

Mr. JAENKE. No, sir.

The CHAIRMAN. You would have to comply with the provisions of the law as they now exist and as you have repeated it in your own act?

Mr. JAENKE. Yes, sir.

The CHAIRMAN. Now something I cannot understand is this: If you reduce the acreage of rice from 1.6 to 1.4 million, which you have the right to do under this act, does it not follow that since the farmers have equipment to plant as much as 1.8 or 2 million acres, and you would reduce that to 1.4 million, that their cost of production would necessarily increase, and their income would be curtailed some?

Mr. JAENKE. Yes, sir.

The CHAIRMAN. If that is true, how can you say in your statement here that your new proposal would increase the farmers' income?

I just cannot follow that, Mr. Secretary.

Secretary FREEMAN. Because the projection of need would be such that it would require about the equivalent acres that are being planted today.

The CHAIRMAN. You argue that, but I am saying under the authority you would have under this act, you could reduce it. It is possible for you to reduce it. I am not saying you would, you understand?

Secretary FREEMAN. By the same token, I could cut back the acres 10 percent from what it is right now.

The CHAIRMAN. I understand you can, but you would have to pay between 65 and 100 percent of parity. You have got that.

Secretary FREEMAN. That could be cut back, too, from the level it now holds.

The CHAIRMAN. Yes, but you have got it down now to almost 68 percent. So you would only have 4 more percent to go to make the minimum under the law. And if the law remains as is, the farmer could plant 1.6 million acres and you could not go below 65 percent.

Secretary FREEMAN. About \$4.22.

The CHAIRMAN. I say, You could not go below that?

Secretary FREEMAN. That is correct.

The CHAIRMAN. On the bill as you have it before us, as I just stated, you could reduce the average.

Secretary FREEMAN. To 1.4 million.

The CHAIRMAN. To 1.4 million.

Secretary FREEMAN. That is correct.

The CHAIRMAN. Which would be 400,000 acres less than they are now planting.

Secretary FREEMAN. That is correct.

The CHAIRMAN. Now, if you can do that, how can you argue that you will maintain the farmer's income? That is what I cannot understand.

Secretary FREEMAN. Because I would not do it.

The CHAIRMAN. Well I know, but if you will not do it why do you ask for this authority. That is what I am worried about. Not so much Orville Freeman, because I think I can work with him pretty well, but we might have somebody else—I was about to name someone but I will not—who may not think as you do. Some of them are

heartless and some of them have tried to divide the consumer from the producer and cause a lot of trouble.

As far as I am concerned, I would like to see Congress retain as much of its power as possible, and not leave it too much to the executive department.

Secretary FREEMAN. The same principle is applied in rice as is applied in wheat.

The acreage allotment would be based upon the requirements in relation to the yield, so that we would have an allotment commensurate with our needs, and not be producing our surplus stocks. Now wheat is a billion bushels. In rice it would be 60 million hundredweights.

The CHAIRMAN. 60 million hundredweights, and that is the minimum that you can go to. In other words, as the production increases, the acreage decreases. In other words, under present conditions with the known production of rice per acre, at present you could cut rice back to 1.4 million, but if there is an increase in production, that might still go down to maybe 1.2 million.

That is why I have introduced a substitute bill just for study, I am not wedded to it by any means. As a matter of fact, I would prefer the present program. But it would seem to me that if the farmer's income, as you say, should be maintained and retained, I do not see how we can do it, particularly when the cost of production is so great. I want to say that applies not only to rice but to other commodities, that they have to have the same machinery, the same tools to plant a hundred acres as they would for 150 acres. All they would have to do is spend a little more on gasoline and a little more on oil for the tractors. They have got the equipment there, and that equipment you do not buy with collar buttons. It costs a lot of money.

As we shrink the acreage, up goes the prices, and that is, Mr. Secretary, what worries me, and particularly is that true with respect to the ricegrowers.

I am familiar with some of the farms in California. Why, they cover quite a bit of acreage. You have got a lot of cooperative farming. But in my State, where you have a lot of small farmers of 40 or 50 acres, and where a good deal of this is leased, and where the landowner gets a fifth of the crop, where the water-furnisher gets a fifth, and the man with all the tools to make this rice gets only three-fifths of the crop, you can readily see the shape in which he is in, if you shrink his acreage any more than what it is now. That is what concerns me.

Not only does it concern me with respect to rice, but to all these commodities.

Secretary FREEMAN. I am well aware of the Chairman's concern with rice.

The CHAIRMAN. I know that, but I do not seem to be able to convince you.

Let's go ahead.

Secretary FREEMAN. Title III embodies the second alternative, and we recommend it strongly. It is not perfect. The specific provisions are, of course, susceptible to modification. But we are convinced that something like the two-price plan, because of the effects on farm income, is the preferred alternative.

Under title III, marketing quotas and acreage allotments would continue in use, the program being subject to a grower referendum with a two-thirds majority required for approval. The minimum national allotment would be modified—so that it would be expressed in terms of hundredweight of production, just as this committee did for wheat several years ago.

I might add, with this program we can now foresee no need to reduce rice acreage.

The proposed law would create two levels of price support. Marketing certificates would be issued on the portion of the crop used domestically—35 to 40 percent in the case of most growers. For all rice, the loan rate would be near competitive world prices; for certificated rice, total support for that portion (35 to 40 percent) certificated would be brought up to a range of 65 to 100 percent of parity. The extra certificates to the small grower would come from the Commodity Credit Corporation—so that the large grower would still get his fair share of the domestic market.

The bill proposes a special small farmer provision permitting the relatively small producer to receive certificates on a larger share of his crop.

We are confident that this program would improve grower incomes above 1964 and 1965—since each grower would be getting a higher price for his share of the domestic market than the average price he is getting now. At the same time, most of the remaining 60 to 65 percent of the crop would move into export at world price levels relieving the Government of virtually all export payments and substantially cutting the cost of rice shipped under food for peace. This would bring a sharp reduction in Government costs.

It is our view that a certificate-type program for rice offers a realistic, workable solution to the dilemma of reducing program costs without adversely affecting the income of rice producers. However, as I have indicated, we are not rooted to specific provisions, and we are eager to work with the chairman and members of this committee to perfect a rice program that will at the same time cut costs and increase the income of all producers.

It can be done.

The CHAIRMAN. Mr. Secretary, what would you think of a program to retain a minimum acreage, to retain price supports between 65 and 100 percent, and price supports for 50 percent of parity? That is, on what is sold abroad.

Secretary FREEMAN. On the balance. Well, I think a program somewhere along that line that would concern itself with a more specific minimum acreage provision has some real merits, Mr. Chairman. We would certainly want to give very sympathetic attention to such a proposal.

We have some concern looking down the road that if production continues to climb as rapidly as it does, that that figure should be set at a reasonable level, as has been done in the case of wheat, so that we would not be producing significantly more than we have outlets for.

The CHAIRMAN. Is it not a fact that of all commodities, I mean the six of them, that rice has a smaller carryover proportionately than any other commodity?

Secretary FREEMAN. Yes.

The rice carryover, which at one time was very large, has been worked down to a reasonable level, but I think we need to recognize that it was worked down by very heavy shipments under Public Law 480.

The CHAIRMAN. Now, the differential in the price that the Government pays for sales on Public Law 480 and for cash abroad, as I understand it is about \$1.60.

Secretary FREEMAN. Yes, about \$1.60 per hundredweight on a rough rice basis.

The CHAIRMAN. Now, what is it on the Public Law 480?

Secretary FREEMAN. You pay the whole thing of course under Public Law 480.

The CHAIRMAN. No; you get some currency back. I mean the differential.

In other words, if we should sell long grain rice to England for cash, is the differential less when you sell to England for cash than it would be if you sold to——

Secretary FREEMAN. No; it is virtually the same.

The CHAIRMAN. Virtually the same?

Secretary FREEMAN. It depends upon the bargaining in the marketplace because it moves through the private trade. You might get a better buy or a better price from one or the other, but it would be geared in both cases by market forces.

The CHAIRMAN. I would like to have you place in the record at this point, before you go into the next subject, information on what we have been discussing, with the present law and what you are now proposing.

Secretary FREEMAN. All right, sir.

The CHAIRMAN. Facts and figures to indicate this difference.

Secretary FREEMAN. We will certainly do that.

(The information is as follows:)

RICE PRODUCERS' RETURNS

The 1964 rice crop amounted to 73.1 million hundredweights for which the season average price received by producers was \$4.92 per hundredweight. Therefore, the gross value of production (gross returns) for the crop was \$359.7 million. Projections for the 1965 crop indicate that production will be about 74.5 million per hundredweight and that the average price received by producers will be about \$4.70 per hundredweight. Based on these projections, the value of the 1965 crop would be about \$350 million.

Our projected supply and utilization under the program provided in title III, assumes about the same harvested acreage as in 1964 and 1965. Allowing for the continued uptrend in yields, the production would be about 76 million hundredweights. The loan level, based on criteria in proposed legislation, would be \$3.60 per hundredweight. With this loan level, the season average price for rough rice (excluding certificate value) would be approximately \$3.75 per hundredweight. The gross value of the crop would be \$285 million, and this plus the value of certificates issued to producers—about \$90 million—brings the total gross returns to producers to \$375 million. This exceeds the gross value of the 1964 crop by some \$15 million and is some \$25 million above the projected gross returns from the 1965 crop.

COST REDUCTION

The reduction in program expenditures, under the certificate program, results entirely from the reduction in the amount of export subsidy and in the reduction in per unit cost of rice financed under Public Law 480. The certificate program provides a loan level that is slightly above the farm equivalent of the world price. Since the certificate value would be refunded on all milled rice that is exported, the export price for milled rice would be near the world price level.

As a result, the amount of export subsidy, to make U.S. rice competitive in world markets, would be very small. Under the present program, the subsidy averages \$1.50 to \$1.60 per hundredweight of rough rice. The certificate program would provide a savings of almost \$1.50 on every per hundredweight of rough rice exported. It is this savings that would amount to some \$40 to \$50 million per year. Other items of expenditures would be about the same in the certificate program as in the present program.

The CHAIRMAN. I would also like you to put in the record the difference that would exist in the States that predominantly grow long grain and those that have a mixture.

You see, California produces quite a bit of short grain, as I understand it, for shipment to Japan, and Louisiana produces quite a bit that goes to the Orient.

I wonder if you would be good enough to put information in the record to indicate, I mean to verify the statement that you are now making that under the program that you are now proposing, that the income of the farmer will be greater.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. I would like to know how you figure that out, and it might be well that that be put in the record at this point.

Secretary FREEMAN. All right, sir.

(The information is as follows:)

EFFECT OF CERTIFICATE PROGRAM ON AREAS PRODUCING DIFFERENT TYPES OR
VARIETIES OF RICE

There is nothing in the operation of a certificate-type program that would benefit one rice-producing area or State more than another. The same is true of the various types or varieties of rice. Basically the program would be operated just as the present program is operated with an exception of price support which in this case would be partly provided through domestic marketing certificates. That part of price support made available through loans would continue to be based on the grade, quality, and type of rice just as is provided in the present program.

Senator MONTAYA. Mr. Chairman, along the same lines, would the Secretary also develop in such a statistical résumé the amount in export that is sold for dollars or convertible currency, and the amount that is sold for local currency which we cannot utilize?

Secretary FREEMAN. Fine, we will do that. Very good, sir.

(The information is as follows:)

Milled rice: U.S. exports under specified and outside specified Government-financed programs, July-June 1958-64

[1,000 hundredweight]

Type of export	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64
Public Law 480:						
Title I (sales for foreign currency)-----	3,767	9,960	11,906	8,612	12,742	13,211
Title II (famine and other emergency relief)-----	40	575	404	440	14	-----
Title III:						
Foreign donations ¹ -----	541	1,417	1,751	-----	-----	-----
Barter ² -----	2,552	683	348	-----	-----	-----
Title IV (long-term credit)-----					770	1,072
Public Law 665, sec. 402 (sales for dollars from funds furnished for economic development)-----		162	93	494	341	593
Total exports under specified Government programs-----	6,900	12,797	14,502	9,546	13,867	14,826
Total exports outside specified Government programs, dollar exports ³ -----	7,120	7,435	6,702	10,787	10,187	16,814
Total exports-----	14,020	20,232	21,204	20,333	24,054	31,690
Dollar percentage of total-----	51	37	32	33	42	53

¹ Foreign donations are authorized under sec. 416 of the Agricultural Act of 1949, and sec. 302, title III, Public Law 480.

² The barter program is authorized under the charter act of the CCC; sec. 303, title III, Public Law 480; and other legislation.

³ "Agricultural exports outside Government programs" (sales for dollars) include, in addition to unassisted commercial transactions, shipments of some commodities with governmental assistance in the form of (1) extension of credit, (2) sales of Government-owned commodities at less than domestic market prices, and (3) export payments in cash or in kind.

The CHAIRMAN. A moment ago when I asked you about the differential between the long grain and short grain, I did not realize that on the short grain you have got a differential of \$1.50 in the country here, in the States, so that when you sell short grain abroad, that differential is reflected.

The average may be \$1.60, but your differential in sales abroad of long grain might be \$1.50 compared to \$2 and some odd cents for the short grain; is that correct?

Mr. JAENKE. That is a difference.

The CHAIRMAN. That is what I had in mind when I stated a while ago about the differential between rice that sold abroad for cash and the short grain. As a matter of fact, am I correct in assuming that very much short grain is sold abroad for dollars?

Mr. JAENKE. I assume Mr. Chairman, that your reference to short-grain rice is actually to medium grain. There is a short- or round-grain rice that is grown extensively in California. It accounts for about one-half of the California acreage. This short-grain rice goes for both domestic consumption and dollar exports—little if any moves under Public Law 480. Now in the case of medium-grain rice, which is grown in California and in the South, when it is exported it mostly goes under Public Law 480.

The CHAIRMAN. It mostly goes under 480?

Mr. JAENKE. Yes, sir.

The CHAIRMAN. Since there is this differential here in America between the long and short grain of \$1.50?

Mr. JAENKE. Yes, sir.

The CHAIRMAN. That is reflected abroad when you sell the commodity?

Mr. JAENKE. The subsidy rate depends, as the Secretary indicated, on the world market price for that class of rice.

The CHAIRMAN. I understand.

Mr. JAENKE. As compared to the support price and the market prices in the United States.

The CHAIRMAN. I understand.

Now if you will put those tables in the record, Mr. Secretary, I will appreciate it very much.

Secretary FREEMAN. Very good.

The CHAIRMAN. We now move to wool.

Senator MONTOKA. Mr. Chairman, may I ask one more question?

The CHAIRMAN. Yes, Senator Montoya.

Senator MONTOKA. Mr. Secretary, will you also include in the record at this point a table reflecting the total cost for each of these commodities for the last year, and also the allocated cost per acre to each particular commodity?

Secretary FREEMAN. Yes, sir.

(The information is as follows:)

CCC cost relationship for specified commodities, 1961-64 crops

Commodity and crop years	Realized loss and CCC costs ¹	Number of allotment farms	Cost per allotment farm	Harvested acres, SRS	Cost per harvested acre	Value of production ²	Government costs as percent of value of production
1964 crop:	<i>Millions</i>			<i>Thousands</i>		<i>(Millions)</i>	<i>Percent</i>
Rice.....	\$170	14,108	\$12,050	1,786	\$95	\$359.7	47
Wheat.....	1,470	1,730,085	850	49,170	30	2,214.1	66
Feed grains.....	1,510	3,190,653	473	100,161	15	6,740.0	22
Cotton, upland.....	860	605,000	1,421	13,951	62	2,224.8	39
Tobacco.....	28	565,692	49	1,080	26	1,307.4	2
Peanuts.....	32	95,000	337	1,397	23	246.9	13
1963 crop:							
Rice.....	179.7	14,484	12,407	1,771	101	352.1	51
Wheat.....	1,835.5	1,721,000	1,066	45,209	41	2,357.8	78
Feed grains.....	1,395.2	3,199,856	436	107,380	13	6,879.1	20
Cotton, upland.....	485.1	639,000	759	14,072	34	2,428.3	20
Tobacco.....	38.8	570,156	68	1,176	33	1,351.8	3
Peanuts.....	28.3	98,000	289	1,409	20	226.7	12
1962 crop:							
Rice.....	159.9	14,853	10,766	1,773	90	332.6	48
Wheat.....	1,832.2	1,772,076	1,034	43,541	42	2,513.2	73
Feed grains.....	1,497.7	3,258,729	353	103,250	11	6,400.5	18
Cotton, upland.....	385.8	760,000	508	15,475	25	2,341.4	16
Tobacco.....	41.0	572,464	72	1,225	33	1,363.8	3
Peanuts.....	21.2	106,000	200	1,412	15	199.3	11
1961 crop:							
Rice.....	134.7	15,016	8,970	1,589	85	278.6	48
Wheat.....	1,568.2	1,651,918	949	51,551	30	2,258.4	69
Feed grains.....	1,697.5	2,861,000	593	106,346	16	6,206.5	27
Cotton, upland.....	388.7	800,000	486	15,575	25	2,338.2	17
Tobacco.....	29.2	573,070	51	1,174	25	1,315.0	2
Peanuts.....	12.1	114,000	106	1,410	9	190.9	6
1960 crop:							
Rice.....	157.6	15,394	10,238	1,595	99	248.4	63
Wheat.....	1,421.9	1,643,237	864	51,896	27	2,365.2	60
Feed grains.....	955.7	(3)	(3)	127,826	7	5,469.1	17
Cotton, upland.....	555.6	925,000	601	15,249	36	2,136.4	26
Tobacco.....	31.6	577,288	55	1,142	28	1,183.8	3
Peanuts.....	16.7	116,000	144	1,410	12	178.7	9

¹ Fiscal year most closely comparable to crop year listed; e.g., fiscal 1965 costs relate most closely to 1964 crop year. Includes loss on sales, donations, carrying charges, commodity export payments, gross costs of Public Law 480 programs and other related costs. For wheat also includes IWA, land diversion and price-support payments; feed grains also include price-support and land diversion payments; cotton includes equalization payments. Public Law 480 costs do not include (a) dollar proceeds from sales of foreign currencies under title I and (b) dollar repayments under long-term credit and supply contracts (title IV). Interest and administrative costs are excluded (except for IWA).

² Includes Government payments where applicable.

³ No diversion program in effect—no farm bases established.

The CHAIRMAN. I intended to ask the Secretary to put in the record, in addition to what you just requested, Senator, a table indicating the entire cost of all of these programs on all of the commodities. In other words, what the support price was, what the losses were by selling abroad as to all these commodities, because in the case of wheat, as I remember, although we had the Wheat Agreement, Senator Young, we had to subsidize this.

I think the average was about 60 to 65 cents a bushel.

Senator YOUNG. That is correct.

The CHAIRMAN. And I believe it would be very interesting for us to put in the record at the end of the Secretary's statement a table showing what the entire cost in all categories of all of these programs has been from the inception of them back in 1933.

I am sure you have it.

Secretary FREEMAN. Yes. As a matter of fact, I have got it right here.

The CHAIRMAN. Yes, and just simply put it as to commodities.

Secretary FREEMAN. Very good, surely.

The CHAIRMAN. I think it will reflect quite a lot of facts that many people are not acquainted with.

Secretary FREEMAN. I will be very happy to do that.

(For information referred to above, see p. 188.)

The CHAIRMAN. I can well remember that after World War II when industry was converted from a wartime to a peacetime economy, why industry received in different forms in the neighborhood of \$42 or \$43 billion, and I believe that the whole farm program from 1933 until now does not cost that much. But you never heard a chirp from anybody when industry got the \$40-some-odd billion.

Secretary FREEMAN. That is right.

The CHAIRMAN. But you see a lot of dust kicked up because of this program costing as much as \$41 billion over a 30-year period.

Secretary FREEMAN. That is correct.

The CHAIRMAN. Since 1933. I would like to put that comparison in.

Secretary FREEMAN. Very good.

WOOL

Title IV would amend and extend the Wool Act which has worked quite well for the past 10 years. It was enacted in 1954 and extended twice—in 1958 and in 1961. During these years direct payments to growers have encouraged wool production, which otherwise would have been much lower than it is today. This is one of the simplest of our price-support programs, and it has the advantage of enabling the Government to avoid becoming involved in the wool merchandising business.

Among key changes, this bill would abolish the old policy of encouraging domestic production at a specific level—300 million pounds currently—and provide for wool supports at a level to encourage the domestic production of as much of our needs as is feasible without depressing returns to producers for lambs.

Provision would be made for three graduated levels of price-support based upon each producer's marketings during the marketing year,

and smaller producers would get higher support for their wool. Most of the Nation's 248,000 wool producers would qualify for supports on all their production in the higher of the three levels, or between 75 and 90 percent of parity or from 62 to 74 cents a pound. Some 233,000 producers would fall into this category.

Of the remaining 15,000 growers about 10,000 produce from 2,000 to 7,000 pounds of wool annually. They would receive supports at the high range for the first 2,000 pounds. On all remaining production up to 7,000 pounds, they would receive supports of from 70 to 85 percent of parity.

The other 5,000 producers, who are the largest, would receive supports on the high and middle range exactly as do other producers. On all wool produced in excess of 7,000 pounds, these large growers would receive support of between 65 to 80 percent of parity.

The effect of the three-level approach would be to raise the minimum support under the Wool Act from 60 to 65 percent, and to benefit particularly the smaller growers. At the same time, the program would continue to provide stability throughout the industry.

The CHAIRMAN. I presume that the changes you are suggesting would greatly benefit the small farmer.

Secretary FREEMAN. Yes.

The CHAIRMAN. Would you say at the cost of the large producer?

Secretary FREEMAN. No; I would not.

The CHAIRMAN. Well, the large producer would receive less than he is receiving now; would he not?

Secretary FREEMAN. No.

I would propose that the large producer would receive not less than he receives now. The smaller producer would receive more.

The CHAIRMAN. To what extent would that increase the cost of this program? It is costly now.

Secretary FREEMAN. It would increase the cost of the program very nominally, about \$4 or \$5 million.

The CHAIRMAN. I have before me here a table indicating the production of wool from 1950 through 1965, and back in 1950 the production was 249,344,000 pounds, and with the program we now have, there has been a decrease during last year over 1950 of about 3 million pounds, so that this program has been very costly, and the idea was to encourage producers to grow more wool, and there was a limitation in the law, but that figure has never been reached yet.

How do you account for that, Mr. Secretary?

Secretary FREEMAN. Well, it is very difficult to account for. It is our opinion that in the absence of this program, there would have been a sharp decrease in wool production, and that the program has

contributed significantly to maintaining the level of production we now have which we feel to be in the national interest. No one predicted that it would not go up and would lag as it has.

There are a variety of reasons. Lamb prices were low in several years. Also there just seems to be not too many American producers who want to go heavily into the sheep-raising business.

Senator AIKEN. And not too many people that want to pay \$1 a head to get the sheep sheared, which is the going price.

Secretary FREEMAN. That may be part of it.

Senator AIKEN. That takes a quarter of the returns.

Secretary FREEMAN. Because this program has not reached that goal, and because we think—all things being equal—that that goal is unrealistic, we have asked that that 300 million figure be removed from the act. We do not think it is attainable, 300 million pounds, that is.

The CHAIRMAN. What good would it do to take it out?

There is a limitation there of 300 million pounds. Then when they reach that, why what happens?

Secretary FREEMAN. Let's put it this way: We do not think we are going to reach it and it is unrealistic to have it as a goal when it is not in the cards that we are going to reach it under the program. We have not in this period of time.

The CHAIRMAN. As I pointed out, I am very much disappointed that this program has not increased production.

Secretary FREEMAN. Yes, I am too.

The CHAIRMAN. As it was intended.

Secretary FREEMAN. That is correct.

The CHAIRMAN. It never has, and I am just wondering if there is any chance of increasing it, because we are paying a high price for that in my opinion.

Secretary FREEMAN. Well, I do not think that there is very much chance, maybe some, but I think that the 300 million goal, given the current program as it now stands, and as we have modified it, is unrealistic.

We do want to maintain, in the national interest as well as for the producers, certain production of wool, and I think the program is necessary to do that.

The CHAIRMAN. In the tables that I asked to be put in the record about the cost of all programs, you are going to include wool?

Secretary FREEMAN. Yes.

The CHAIRMAN. And I would also suggest that we put in the record at this point tables from the wool situation, which give very interesting statistics on the number of sheep beginning in 1942 on through 1964.

Without objection, that will be done.

(The tables referred to follow:)

Number of stock sheep in the United States: Domestic production, imports, and consumption of wool
[Millions of pounds]

Year	Stock sheep on farms Jan. 1 (1,000 head)	Wool production					Imports for consumption			
		Shorn wool, grease basis	Pulled wool, actual weight	Total	Shorn wool, clean content	Pulled wool, clean content	Total, clean content	Dutiable raw wool	Foreign trade balance of apparel wool ¹	Mill consumption on scoured basis
1942	49,346	388	67	455	171	50	221	457.1	1.7	560.5
1943	48,196	379	65	444	167	49	216	397.4	-31.4	603.3
1944	44,270	338	74	412	149	55	204	344.9	-63.0	577.0
1945	39,609	308	71	378	136	53	188	418.0	-44.1	589.2
1946	35,525	281	61	342	124	46	170	473.0	-43.0	609.6
1947	31,805	251	57	308	111	42	153	259.3	-34.1	525.9
1948	29,486	232	47	278	102	35	137	246.2	14.5	485.2
1949	26,940	213	36	248	94	27	120	154.9	26.6	339.0
1950	26,182	217	32	249	95	24	120	250.1	46.4	436.9
1951	27,251	228	26	254	100	19	120	272.0	40.4	382.1
1952	27,944	233	34	267	103	25	128	248.5	74.0	346.8
1953	27,593	232	42	274	102	32	134	165.7	47.6	358.0
1954	27,079	236	44	279	104	33	136	103.9	46.8	269.6
1955	27,137	241	42	283	106	31	137	112.8	64.0	281.2
1956	26,890	242	41	283	107	30	137	103.8	72.0	296.7
1957	26,348	239	34	273	105	25	130	78.2	67.0	240.8
1958	27,167	244	30	274	107	23	130	67.1	70.5	212.0
1959	28,108	260	35	294	114	26	140	100.5	96.9	264.9
1960	28,849	265	34	299	119	25	145	74.3	98.9	246.4
1961	28,571	261	35	296	118	26	143	90.3	95.2	263.1
1962	27,065	249	30	279	112	22	135	125.8	112.3	280.2
1963	25,731	238	29	267	107	22	129	109.2	125.4	251.3
1964	24,348	³ 222	25	247	³ 100	19	119	³ 98.4	³ 107.1	³ 233.6
1965	³ 23,341									

¹ Raw wool content of apparel wool manufactures, including noils and wastes, imported less exports of such manufactures. During the years 1943 through 1947, the United States was on net export basis of wool manufactures due to the heavy exports of fabrics for military purposes.
² Includes Alaska and Hawaii.
³ Preliminary.

Stock sheep on Jan. 1, number of sheep and lambs shorn, weight per fleece, price per pound received by growers, value of production, and wool production, United States, 1950 to date

Year	Stock sheep on Jan. 1	Sheep and lambs shorn ¹	Weight per fleece	Shorn wool production	Price per pound ²	Value of production	Pulled wool production	Total wool production	
								As reported	Approximate clean fiber equivalent ³
	Thousand	Thousand	Pound	Thousand pounds	Cents	Thousand dollars	Thousand pounds	Thousand pounds	Million pounds
1950	26,182	26,380	8.22	216,944	62.1	134,623	32,400	249,344	119.8
1951	27,251	27,347	8.34	228,091	97.1	221,456	25,900	253,991	119.8
1952	27,944	28,051	8.32	233,309	454.1	126,327	33,600	266,909	127.9
1953	27,593	27,845	8.34	232,258	454.9	127,514	42,200	274,458	133.8
1954	27,079	27,692	8.52	235,807	453.2	125,538	43,500	279,307	136.4
1955	27,137	28,149	8.57	241,284	42.8	103,040	41,600	282,884	137.4
1956	26,890	28,469	8.51	242,177	44.3	107,233	40,500	282,677	136.9
1957	26,348	28,415	8.41	239,101	53.7	127,764	33,600	272,701	130.4
1958	27,167	29,403	8.29	243,713	36.4	88,632	30,400	274,113	130.0
1959	28,108	30,763	8.45	259,939	43.3	112,328	34,500	294,439	140.2
1960	28,849	31,064	8.55	265,480	42.0	111,496	33,600	299,080	144.7
1961 ⁵	28,571	30,719	8.50	261,249	42.9	112,330	34,500	295,749	143.4
1962	27,065	29,525	8.44	249,065	47.7	118,709	29,900	278,965	134.5
1963	25,731	27,875	8.54	238,185	48.5	115,228	28,800	256,985	128.8
1964	24,348	26,411	8.40	221,897	53.2	117,941	25,100	246,997	118.7
1965 ⁶	23,341								

¹ Includes sheep shorn at commercial feeding yards.
² The average price is for the marketing season April through March 1950-62; 1963 average, April through December; 1964 is on a calendar year basis. U.S. average price computed by weighting State average prices for all wool sold by production of shorn wool.
³ Production as reported converted on basis of 44-percent yield for shorn wool for 1950 through 1959 and 45-percent yield for 1960 to date and 75-percent yield for pulled wool.
⁴ Included an allowance for wool under loan.
⁵ Beginning 1961 includes Alaska and Hawaii.
⁶ Preliminary.
Source: Compiled from reports of Crop Reporting Board, SRS.

Senator AIKEN. You are saying that the rangegrower would not take a reduction in price?

Secretary FREEMAN. Yes, sir.

Senator AIKEN. But the farmgrower would doubtless get an increase.

Secretary FREEMAN. Yes.

Senator YOUNG. I wonder if you have information concerning the number of sheep in the United States for the 5 years previous to the initiation of this program and for each year afterward?

Secretary FREEMAN. We have such figures.

Senator YOUNG. I was wondering if this program was effective in stopping the decrease in sheep numbers?

Secretary FREEMAN. It has prevented a greater decrease in wool production than it has been and I think the output per animal has improved somewhat during that period.

The CHAIRMAN. This table, Senator Young, indicates that in 1950 the number of sheep on hand was 26,182,000, and today it is 23,341,000. It has gone down in number.

Senator YOUNG. I think that sheep numbers were dropping more sharply previous to this program going into effect. That is what I was trying to establish.

Secretary FREEMAN. We will look that up.

The CHAIRMAN. This table indicates the stock of sheep on hand from 1950 on, sheep and rams shorn; they have that. The statistics are very interesting.

Personally, as I said, I am rather disappointed that the program has not worked better, because the price is certainly good. The wool-growers are paid the difference between whatever the target price is and the market price, which is a very unique program.

Senator YOUNG. There are a lot of problems in this sheep business. I raised them myself for a few years. It has to be very profitable for farmers to want to stay in it.

There are a lot of hazards with dogs and other predators, and if you are operating on a sizable scale, you have a difficult time getting help.

My own feeling is that the production of wool in the United States would have dropped much, much further than it has had there been no program. The program probably has not been as effective as it could have been, but I think it has helped a whole lot to maintain some semblance of wool production in this country. We might need this production very badly one day.

Senator AIKEN. I think the difficulty and the costs of getting herders has had a lot to do with it.

The CHAIRMAN. Any further questions on wool?

If not, we will now proceed.

CROPLAND ADJUSTMENT

Secretary FREEMAN. Cropland adjustment program.

I regard title V as the most basic and perhaps the most essential feature of the entire bill. It is, I believe, a realistic, reasonable, and humanitarian effort to come to grips, on a long-term basis, with the overcapacity in agriculture. It recognizes that, while we have acreage we do not presently need in crops, there is no such thing as unneeded

land. Every acre of land in this Nation is precious to very American—and is not to be wasted through neglect or abuse or in the production of unneeded and unused farm production. Cropland adjustment is not a commodity program—but a program for people.

In each of the past 4 years, we have harvested crops from fewer than 300 million acres—out of some 460 million classified as cropland. Some of the unharvested acres—about 60 million acres—are now diverted to conserving uses under Government programs. But some acres are under expiring contracts, and may soon return to production. This land, and much acreage now in annual programs, could well be shifted to long-term noncropping uses—and not idled or shelved or banked, but used.

By removing acres now primarily in allotment and price-supported crops from production on a longer term basis, the cropland adjustment program would greatly reduce program costs. The legislation would authorize the Secretary to enter into 5- to 10-year contracts with landowners during the 5 years, 1965–70, and this is especially important as a supplement to the wheat and feed grain programs. A portion of the acreage now diverted under those programs would begin to go under the longer term program, and over a period of years the number of these acres would increase. In the first year, if only 8 million acres came into the program, estimated tax savings from CAP would be about \$35 million on the acreage which otherwise would have to be dealt with under annual programs.

The CHAIRMAN. Mr. Secretary, this diversion of acres, as you have just indicated, would be in addition to what is proposed in the corn program and other feed grains as well as wheat.

Secretary FREEMAN. No; we think it would take the acres or it would not be necessary to take so many acres under the wheat and feed grain programs.

The CHAIRMAN. As I understand it, you are having difficulty now in getting the number of diverted acres that you expect in corn and other feed grains. That is reflected by the fact that we are producing quite a bit more corn than was anticipated, and I am just wondering where would these 60 million acres come from. Who would be the contributors to this program?

Secretary FREEMAN. We are convinced that there would be a significant number of acres that today are under the feed grain or wheat program, or that today are producing wheat or feed grains that would go into this kind of a program where they can contract those acres on a longer term basis, rather than a year-to-year basis, and the cost would be roughly 80 percent as much.

This is verified by the experience we have had with the cropland conversion program which has shown a significantly less cost for wheat and feed grain acres going into those programs on a long-term contract basis.

The CHAIRMAN. We had quite a lot of experience with soil banks. We had two forms of them, and I wonder if at this point you would put in the record the cost of those programs.

Secretary FREEMAN. Yes; I certainly can, Mr. Chairman, but I would like to emphasize—and I get to that on this page in my statement—that there are important differences between this program and the soil bank.

The CHAIRMAN. How would you differentiate it?

Secretary FREEMAN. I would really put it this way. That the soil bank used a shotgun and tried to scoop up any land anywhere, and got and paid for a lot of land that did not serve the purpose of cutting back production.

The CHAIRMAN. Well, that is because of maladministration, and if you desire to, you could do the same thing under this program.

Secretary FREEMAN. No.

The CHAIRMAN. What is your limitation? What is the difference? You would have to pay to get the land out of cultivation.

Secretary FREEMAN. Yes.

The CHAIRMAN. Exactly.

Secretary FREEMAN. But in this case it is clearly provided—and will be provided in the legislative history—that we are in the process of making—that we would require all of the allotted acres on a particular farm to go into the cropland adjustment program, and not just any land, and this would be a prime requirement, so we would not make the mistakes that were made under the soil bank.

The CHAIRMAN. When you speak of allotted acres, do you mean on a program with price support?

Secretary FREEMAN. Yes; a program where there is a history and a base.

The CHAIRMAN. You are doing it now under your wheat program and your corn program, and you expect to continue it.

Secretary FREEMAN. Yes, indeed. We expect to get that land more cheaply under the cropland adjustment program, because the producer will be able to come in over a longer term basis.

The CHAIRMAN. I think you are very optimistic that you are going to get it from the corn growers. It might be possible in some areas where you grow a pocketful of wheat per acre at times because of droughts, but generally speaking, Mr. Secretary, do you not think that the farmers would be more apt to take advantage of diverting their acres under the programs that you are now proposing that on this long-term that you are proposing or suggesting?

Secretary FREEMAN. No. I think there will be a significant number of farmers who will come in and will put land in the cropland adjustment program rather than on a year-to-year basis under the current programs. If they do not, by nothing has been lost until we see whether they will or not.

Our experience under the cropland conversion program, although it did not involve a significant number of acres—almost a half million acres—nonetheless showed that there were quite a number that are willing and anxious to do this when they can plan ahead with more assurance. And so we are quite confident that we could get a very significant number of acres, and as we note here, we are shooting for 40 million acres, which would involve average savings of about \$175 million annually.

I repeat, there is only one way to find out, and that is to try, and if you cannot do it, nothing is lost.

The CHAIRMAN. That is in the event that you can get the acres diverted on a cheaper basis.

Secretary FREEMAN. Yes.

The CHAIRMAN. That is why I say you are kind of optimistic on that.

Secretary FREEMAN. I may be optimistic, but I think it is right.

The CHAIRMAN. Because under your present program, as I remember the figures for the current year, you have signed up about 34 million acres——

Secretary FREEMAN. Yes, sir.

The CHAIRMAN (continuing). Of corn and other feed grains.

Mr. JAENKE. Nearly 37 million.

Secretary FREEMAN. About 37 million on the feed grains, yes.

The CHAIRMAN. That might be your 1965 figure, but the one I saw was about 34 million acres sometime ago. Now, what would be the difference in the cost to the Government as to those acres and under the program you are now proposing?

Secretary FREEMAN. Well, we think those costs would be about 80 percent. For example, to be specific, I am reading now from a table that we prepared. Under the current program, the costs would be \$36 average for cornland, and we estimate it would be \$29 for comparable cornland under the CAP; \$24 for grain sorghum, \$19 under the CAP; \$16 for barley, \$13 under the CAP, and so on.

The CHAIRMAN. How do you expect the farmer to——

Secretary FREEMAN. To take less?

The CHAIRMAN. Yes.

Secretary FREEMAN. Because he is going to get a 5-year contract. And also because he could get his whole allotment put in.

The CHAIRMAN. And give up farming if he wants to.

Secretary FREEMAN. He could.

The CHAIRMAN. Do you think that is the thing to do?

Secretary FREEMAN. I think some will.

The CHAIRMAN. We are crying aloud now about the farmers leaving the farm. Here you have given them an opportunity to leave.

Secretary FREEMAN. There may be some instances where, as we try to bring supply and demand into balance, it would be preferable for a man who is about ready to retire or who desires to leave farming to do something else, that his land should be kept out of production instead of going to someone else to whom we would then have to pay more to get the land out of production under a wheat or feed grain program.

The CHAIRMAN. Now for the record, if you will, put the cost of the past programs in, and I do not know whether you can put the anticipated cost of this one. It might be interesting to find out.

Secretary FREEMAN. We can do that.

The CHAIRMAN. And give your reasons for it if you have any others than you have suggested.

Secretary FREEMAN. We will be happy to do that and to supplement that presentation with some examples of what has taken place in the cropland conversion program where farmers have done precisely what I have said I think many of them will do.

(The information referred to follows:)

The total of payments to farmers under the soil bank (acreage reserve and conservation reserve), including expenditures yet to be made under conservation reserve contracts still in effect, will be about \$4.2 billion. We estimate that the average annual cost of the proposed cropland adjustment program will be about \$17.6 million per million acres. The diverted acres under the latter would be taken primarily from feed grain and wheat production.

The following example illustrates the conversions that can be obtained under a long-term cropland adjustment program. The following table represents the entire pilot cropland conversion program, for agreements beginning with 1965, in Cache County, Utah.

Cropland conversion program¹ Cache County, Utah

Case	Acres under agreement	Acres in wheat allotment and feed grain base	Minimum diversion with CCP payment, from wheat allotment and feed grain base		
			Acres	Percent of wheat allotment and feed grain base	Percent of total acres under agreement
1.....	46	117	45	38	98
2.....	47	79	39	49	83
3.....	12	104	12	12	100
4.....	41	65	41	63	100
5.....	156	568	156	27	100
6.....	26	200	19	9	73
7.....	24	89	24	27	100
8.....	46	86	46	53	100
9.....	66	133	47	35	71
10.....	15	36	0	0	0
11.....	11	60	11	18	100
12.....	186	168	153	91	82
13.....	20	4	0	0	0
14.....	16	27	12	45	75
15.....	255	134	65	49	25
16.....	19	37	0	0	0
17.....	4	1	0	0	0
18.....	79	96	79	82	100
19.....	33	57	25	44	76
20.....	6	5	0	0	0
21.....	20	29	0	0	0
Total.....	1,128	2,095	774	37	67

¹ Based on 5-year agreements beginning with 1965 crop year.

Of the 1,128 acres under agreement, at least 774 acres of wheat and feed grain are being diverted.

The county average adjustment payment under the cropland conversion program in Cache County is \$8 per acre per year. The highest diversion payment rates per acre for an average-yield farm in Cache County under the 1965 feed grain and wheat programs are: corn, \$44.02; barley, \$20.37; and wheat, \$17.20.

The CHAIRMAN. Is it a fact or not that on the past farm programs we have had, that is soil bank programs, that as the contracts expire—particularly where no trees were planted—that the land is richer and that production is increasing on such land?

Secretary FREEMAN. I doubt it very much. Maybe a little, but not any significant amount, considering modern technology. Most of that land would be getting a strong dose of some kind of fertilizer in any event. It might with 5 years rest be somewhat more productive, but I doubt it would be a significant amount.

The CHAIRMAN. I would like to agree with you there, because I do know that you let land rest and put a lot of humus in it, that you will have the necessary humidity there to dissolve that fertilizer that would not otherwise exist. There is no doubt in my own mind but that the fact that you let the land rest and the grass grows on that and mixes in with the soil, that this mixture of the weeds or grass or whatever grows on that will more or less serve as a sponge to retain the necessary moisture to dissolve fertilizer where it is supplied. You will find that production will increase.

Under that program you say the cost would be lower as you have indicated.

Secretary FREEMAN. Yes.

The CHAIRMAN. Would you permit the planting of anything on it? What are the conditions?

Secretary FREEMAN. Only that it should be protected from weeds, noxious growths, and not allowed to blow away. That there be no production on it.

The CHAIRMAN. No pasturing.

Secretary FREEMAN. Conservation cover.

The CHAIRMAN. No pasturing.

Secretary FREEMAN. Grazing, except in emergencies, would not be permitted.

The CHAIRMAN. On this exclusion, would you permit them to substitute some other crop to enrich the soil?

Secretary FREEMAN. The same general rules in regard to cover crops that we apply under the wheat and feed grain programs.

The CHAIRMAN. In fact would it not be about the same as you have——

Secretary FREEMAN. Yes.

The CHAIRMAN (continuing). On the old soil bank program?

Secretary FREEMAN. Well, now I am not too familiar with the old soil bank program.

The CHAIRMAN. You had there these conditions except where you permitted the planting of trees. You permitted the planting of grasses and the maintenance of it and the weeding.

Secretary FREEMAN. Yes, so that there is adequate cover to protect it.

The CHAIRMAN. I imagine that your suggestion is like the conservation reserve program that we had a few years ago.

Secretary FREEMAN. It is quite different in the sense that we will here not take land which is not in a program with a history and an allotment until after all the allotments and history acreages have been retired in the program. We would then conceivably get to some additional land. But we are not going to take just any land. We are going to insist on land that has a cropping history and is producing a crop in surplus.

The CHAIRMAN. That was the intention of the old soil bank program, but it did not work that way.

Secretary FREEMAN. Well, this was, I think, because land was taken without——

The CHAIRMAN. Well, not only that but they permitted its cultivation. And then after it was plowed up they put it in a condition that it could be put later into the program.

Secretary FREEMAN. That could not occur under this program.

The CHAIRMAN. You have tightened that up.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. In any event then if you would project the cost as to why you think it would be cheaper, it will be of great benefit to the committee.

Secretary FREEMAN. Very good, sir.

Senator YOUNG. Mr. Chairman, I would like to ask a couple of questions along that line.

There has been a great deal of interest expressed by the Wildlife people in having a 3- to 5-year diversion program rather than the 1-year program like we have at the present time under the wheat and feed grain programs. Have they worked out any program with you?

Secretary FREEMAN. Yes. We have been working in close cooperation with the Wildlife people on this, and one of the things to differen-

tiate this—very importantly, in my judgment—from the previous soil bank program is the specific authority which would make it possible for the Federal Government in this kind of a program to work with private groups or local government groups to put land diverted in this fashion to wildlife uses, to the creation of cover, to recreation purposes, and in some cases to use these payments to make it possible for local units of Government to actually purchase such lands for permanent recreation uses.

So you would not only take the land out for 3 to 5 years, you would cooperate in taking the land out permanently and moving it to a new and economic use.

Senator YOUNG. That is one of the real economic benefits that would come from this longer program.

Secretary FREEMAN. A very significant and important thing. I feel strongly about this. I never did like the soil bank. I do not like the concept of idling or banking land anyway. But to the extent that we can put land that we do not need in cropping to new uses, where we do need land, that is a solid plus, and this program is designed to do precisely that.

Senator YOUNG. There is one other great advantage, Mr. Chairman, and I think you will agree with me. In my area when farmers retire land for 1 year, they usually do what we call summer fallowing, and you actually increase production the following year a whole lot more than you do if you retired the land for a longer period.

I was listening with a great deal of interest to the argument you had with the Secretary a little while ago. This is much the same argument I had with my sons when I was home recently. They really won the argument.

Secretary FREEMAN. Which side were they on?

Senator YOUNG. They were on your side.

The CHAIRMAN. Here in explanation of the bill it is stated that you would be empowered to enter into long-term agreements with producers to assist them in diverting their cropland to vegetative cover, water storage facilities or other soil, water, wildlife, or forest conserving uses or uses for the establishment, protection, and conservation of open spaces, natural beauty, wildlife, and recreational resources and for the prevention of air and water pollution.

I presume, Mr. Secretary, that this language which was taken from a statement made by someone in your Department, that it is somewhat along the line of this program we have where we have \$10 million per year.

Secretary FREEMAN. Yes, sir; that is right.

The CHAIRMAN. And you would want to——

Secretary FREEMAN. Our experience with that cropland conversion program to which the chairman referred has led us to believe that this kind of program, seeking to permanently move land to new uses, is sound, and that there are a number of producers who will cooperate in such a program, and will take a lesser amount than they would insist on getting for a year contract.

The CHAIRMAN. All right, the committee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 4 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, June 17, 1965.)

FOOD AND AGRICULTURE ACT OF 1965

THURSDAY, JUNE 17, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m. in room 324, Old Senate Office Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender, Holland, Jordan of North Carolina, McGovern, Bass, Mondale, Russell of South Carolina, Aiken, Young of North Dakota, Cooper, and Boggs.

The CHAIRMAN. The committee will please come to order.

Mr. Secretary, yesterday we had started discussing the cropland adjustment program. We were exchanging views as to what the bill contained. As I recall, you had stopped reading in the middle of page 28, am I right?

STATEMENT OF HON. ORVILLE L. FREEMAN, SECRETARY OF AGRICULTURE—Resumed

Secretary FREEMAN. Yes, sir; you are right.

The CHAIRMAN. You may proceed, Mr. Secretary.

CROPLAND ADJUSTMENT

Secretary FREEMAN. Thank you, Mr. Chairman.

Beginning at the second paragraph on page 28.

If this program can be built up to about 40 million acres after 5 years, it will reduce our dependence on annual programs and save up to \$200 million a year. At the same time, these acres not now needed for grain production could be used to meet needs of other kinds—for woodlands, recreation, open space, wildlife, beautification, watershed protection, and pollution control. Grazing would not be permitted except in emergencies.

I would like to strongly emphasize two points. One has to do with comparisons that have been made between the CAP and the conservation reserve of the soil bank. It is true that both are long-term land retirement programs—but there the similarity ends. There are very important differences in the two programs, and I should like to summarize them for you.

The CHAIRMAN. Before you proceed to do that, will this summary differentiate the difference in the language in the original conservation acreage reserve and your program, or is it simply a declaration of policy that you are going to talk about now?

Secretary FREEMAN. Well, actually, Senator, it is both, although in the testimony here I am not making specific comparisons of differences in language. But there are some such differences. But I am also here making clear as a matter of legislative history the policies that would be followed by the Department in administering the program.

The CHAIRMAN. Suppose we reenacted the old conservation acreage reserve program as written. Could you not under that program do what you propose to do here, under your bill that you are suggesting?

Secretary FREEMAN. Some of the things we propose to do here we could not do under the old conservation reserve program; no.

The CHAIRMAN. I wish you would be specific as to that as you go along, because as I read the bill over, and then your statements in the language that you present to us, it is more or less a statement of policy.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. That is what it is. It is your interpretation of it, what you propose to do with it. That is why I believe that if we were to take the old law as written, you could probably make statements similar to what you are now making, and there would hardly be any necessity for changing the program, except in just minor respects.

Senator AIKEN. Should we consider his statement as a declaration of intentions?

Secretary FREEMAN. I would certainly consider it as such myself.

Senator AIKEN. That is you are undertaking to tell us about what your plans would be if the legislation is enacted.

Secretary FREEMAN. Yes; that is precisely right. What the Senator is requesting—and I have here a table that Mr. Jaenke is now checking of the specific differences in language in the current proposal as compared to the conservation reserve. So let me go through this, if I may, and then come back to it. I will try and note some of those differences and, based upon the experience we have had, why the committee might want to write some of my policy statements into the statute to prevent some of the serious mistakes in administration which I think hamper the effectiveness of the earlier act.

(The information is as follows:)

DIFFERENCES IN SOIL BANK ACT EFFECTED BY THE PROPOSED AMENDMENTS

In connection with the extension of the Soil Bank Act, section 501 of the proposed bill would amend section 107: (1) to provide that the minimum contract period with producers shall be 5 years instead of 3; (2) to authorize additional practices or uses for the establishment, protection, and conservation of open spaces, natural beauty, recreational resources, and for the prevention of air and water pollution; (3) to prohibit grazing of acreage placed in the program except in the case of severe drought, flood, or other natural disaster; (4) to authorize only such forfeitures and refunds as the Secretary determines appropriate in the case of violations warranting termination of the contract (the present law requires forfeiture and refund of all payments under the contract); (5) to make it clear that the amount of cost sharing for establishing vegetative cover or other uses can be based on the average cost of establishing such practice in the county or area; (6) to authorize the Secretary to make payments in a lump sum upon approval of the contract or in such installments as he determines desirable (the present law provides only for annual payments); (7) to clarify the authority of the Secretary to prescribe by regulation violations which are of such a nature as to defeat or substantially impair the purposes of the contract; and (8) to add a new provision to the effect that the total acreage placed under contract in any county would be limited to a percentage of the total eligible acreage in such county as the Secretary determines would not adversely affect the economy of the county.

Section 502 would authorize the Secretary to enter into contract with producers during the period 1965 through 1970 to be carried out during the period ending not later than December 31, 1979. The period covered by any contract would be not less than 5 years or more than 10 years. The calendar year limitation of \$450 million would be deleted to provide that contracts shall not be entered into which would require payments in any calendar year in excess of amounts specified in appropriation acts.

Section 503 would (1) authorize the furnishing of conservation materials and services for the additional practices and uses which would be authorized under the act and (2) provide the Secretary with discretionary authority in requiring compliance with acreage allotments as a condition of eligibility for payments under the program.

Section 504 would add a new provision authorizing the Secretary (1) for the purpose of obtaining an increase in the permanent retirement of cropland to noncrop uses, to transfer funds appropriated for carrying out the program to any other Federal agency or to States or local governmental agencies for use in acquiring cropland for the preservation of open spaces and natural beauty, the development of wildlife and recreational facilities; and the prevention of air and water pollution; and (2) to share the cost with State and local governmental agencies in the establishment of practices and uses which will establish, protect, and conserve open spaces, natural beauty, wildlife, and recreational resources and prevent air and water pollution.

Section 505 would repeal section 123 of the Soil Bank Act which provides that any producer who knowingly and willfully grazes or harvests any crop from any acreage in violation of a contract shall be subject to a civil penalty equal to 50 percent of the compensation payable for compliance with such contract for the year in which the violation occurs.

Section 506 would provide authority for the Secretary to prescribe a uniform rule for the preservation of cropland, crop acreage, and allotment history with respect to acreage which is devoted to vegetative cover and other approved uses. The present provisions for preservation of history under the Soil Bank Act would be repealed, except that all rights accruing thereunder to producers with existing contracts would be preserved.

Secretary FREEMAN. The first acreage to go into the CAP on any participating farm would have to be farm allotment or base acreage for crops now covered by annual commodity programs. This would maximize the savings in commodity program costs, and would avoid taking into CAP land that does not now account for much crop production. It would direct the program at those crops now in surplus. Payment would be based on the crops reduced and the quality of the land placed in the program. In this sense, it is a "rifle" aimed at surpluses rather than a "shotgun" aimed simply at signing up land.

That was not true under the conservation reserve.

The CHAIRMAN. But this is not in the law. That is what you will do.

**STATEMENT OF EDWIN A. JAENKE, ASSOCIATE ADMINISTRATOR,
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE,
U.S. DEPARTMENT OF AGRICULTURE—Resumed**

Mr. JAENKE. The other law, the basic law could have been administered the way Secretary Freeman is proposing it.

The CHAIRMAN. Yes, that is it.

Mr. JAENKE. But it was not.

Secretary FREEMAN. But in this one there are provisions that you have to take out base acreage; are there not?

The CHAIRMAN. But here you state first land to go in would be the land—

Secretary FREEMAN. Let me put it this way. The authorization as it stands in this kind of thing is a general authorization, and the policy in connection with it that I have now enunciated is one that was not followed in the earlier act, but it could have been followed as the chairman made the point.

The CHAIRMAN. Yes. As you say here:

The first acreage to go into the CAP on any participating farm would have to be farm allotment.

Secretary FREEMAN. That is right.

The CHAIRMAN. You say you would have no objection if we agreed——

Secretary FREEMAN. No.

The CHAIRMAN (continuing). To have a bill of that kind?

Secretary FREEMAN. No.

The CHAIRMAN. To make it possible to put that in first rather than——

Secretary FREEMAN. No.

Senator YOUNG. Mr. Chairman, could I ask a question?

The CHAIRMAN. Yes, Senator Young.

Senator YOUNG. This raises a very serious question, Mr. Secretary. Suppose a farmer had 400 acres of land, and he wanted to put 100 acres of it into this land retirement program. Would the entire 100 acres have to be taken from wheat allotment or feed grain base acreages, or would he simply take the percentage of each of these that the 100 acres represents, in this case 25 percent?

Secretary FREEMAN. He would have to take—under what my concept of administering the program—he would have to take out the entire allotment first before he could take out any, let us say, grazing land.

Senator YOUNG. This would not leave much acreage of the allotment crops for the rest of his farm.

Secretary FREEMAN. No.

Senator YOUNG. What would he raise on the rest of his farm?

Secretary FREEMAN. In this instance he would probably graze on the remaining land or he would not do anything.

Senator YOUNG. Such a program would be of little or no value to my area. I would have to vote against it if this is your concept of the operation of the program. If a North Dakota farmer has a 100-acre wheat base on a 400-acre farm, he is doing as well. If he puts 100 acres in the soil bank, you would require him to take his entire wheat allotment out of production. This is his major income-producing crop. He could switch to corn or to some other crop, but in many areas this would not work at all as we have very few profitable alternative crops.

Secretary FREEMAN. In this instance, I think this would be a farmer, Senator Young, who would not come under this program. But I think there would be some others who would. Suppose he had a 20- or 30-acre allotment, and he had an additional 200 acres that he was grazing. He may very well find that retiring that allotment fits into his operation and then, once he has retired it the question of additional acreage could come into play.

We do not want to repeat the mistake that was made before of taking on a lot of second-grade land.

Senator YOUNG. You would not have to do that. If a farmer is taking 10 percent of his land out of production and putting it in this land retirement program, you could require him to take 10 percent of his wheat allotment out of production. If he took out 50 percent of his land he would take out 50 percent of his wheat allotment.

Secretary FREEMAN. I may have misunderstood you before. I would propose that if he had 100 acres of wheat and 300 acres of grazing, before he could retire any of that grazing land, he would have to take out all the wheat. But under the proposed language it is possible that he could take out some of the wheat under a conservation adjustment program on a long-range basis. In other words, he could take out 10 or 20 of that 100. But he would have to take out the whole 100 before we would get down to the question of taking out any of the grazing land.

Senator YOUNG. One of the most serious mistakes of the old soil bank program was that a person could buy land, transfer allotments to other acreage and retire the land he had just purchased. A person could buy a quarter section of land, and if it had a 40-acre wheat base, he could put that quarter section of land in the soil bank program and put the wheat allotment on his other land.

Secretary FREEMAN. Right.

Senator YOUNG. This was a provision that made the program very ineffective.

Secretary FREEMAN. Exactly.

Senator YOUNG. I think it would be going too far if we required the operator to put his entire acreage of allotment crops into the program before he could retire any other crop acreage. Farmers in my area just could not go into such a program. On the other hand if a producer had to take out a percentage of his total allotment equal to the percentage the land he is retiring is of his total cropland, it would be all right.

Secretary FREEMAN. Our purpose here is to get out of production the land that is producing surplus crops. We do not care to get any of that grazing land or any of that woodland or any of that wasteland. We do not want it.

If it involved an operation where he took out all his allotted crops, why then I could conceive a situation where we might take some of that grazing land. But not until he got all of his allotted crops out of the picture.

Senator YOUNG. I do not think you understand my question yet. If a farmer had 400 acres of cultivated land and he had a 100-acre wheat allotment and a 100-acre feed grain base, I would think it would be better if, when he put 100 acres in the land retirement program, that grazing land. But not until he got all of his allotted crops out same proportion of his wheat and feed grain acreage. Then he would be required to take 25 percent of his corn, wheat or other allotted acres out of production.

This would be equitable. A farmer could live with this kind of a program. Otherwise I think it would be useless to put such a program on the statute books. You probably would get all the poor land signed up under such a program and little else.

Secretary FREEMAN. Let us give some consideration to this. I will be perfectly frank. It is something I had not considered before, because I gather what the Senator is saying is this. Let us take a

hypothetical farm of 400 acres with 100 acres of wheat base and 100 acres feed grain base and 200 acres grazing. Our target here is to try and get some of the cropland, the wheat and feed grain production into a long-term retirement.

Senator YOUNG. You should be working toward this goal.

The CHAIRMAN. Yes.

Secretary FREEMAN. We do not care about the 200 acres that is in grazing. We are not after that at all. It has been my intention to say that before you would get to that grazing land, he is going to have to retire all of that base of wheat and all of that base of feed grain. Possibly we could provide that he could retire less and get under the program. But before he could retire any of that 200 acres of grazing land, he would have to retire all of the wheat and feed grain acres.

The Senator suggests, if I understand you correctly, that we ought to have a little more flexibility and say that if he retired 25 or 30 or 50 percent of the grain base, that we would then take on a comparable amount of his grazing land. Is that what you are saying?

Senator YOUNG. Yes. One of the major things wrong with the soil bank program, was that if a farmer bought another quarter section of land, he could put this whole quarter in the soil bank program and take the wheat base or corn base or cotton base and put this on the rest of the farm. Thus, he would increase his allotment on his home farm, and the land taken out of production would not be reducing wheat production at all. This is the thing you want to get away from.

Secretary FREEMAN. You think we are going too far.

Senator YOUNG. Yes.

Secretary FREEMAN. Well, I will consider that. I had not thought about it before. But I would emphasize again, Senator Ellender, that this is one of the very sharp differences and that I would have no objection to the committee writing into the law such a restriction which would clearly distinguish this from the previous act, that we do not propose to permit to happen what Senator Young just outlined, which was wrong and which destroyed the old soil bank program. This dramatizes the fact that this is not the soil bank but something quite different.

The CHAIRMAN. The way it was done, as I recall in many instances, some of the grazing land was plowed a year and then considered the next year as farmland, that is for raising crops, and it went into the bank.

Secretary FREEMAN. That is right.

The CHAIRMAN. Do you see the point? And I remember an investigation that was made, that that was brought out very clearly. But this statement of yours, that you are making to us today about the first acres to go in are these allotments, I agree with Senator Young there that the chances are that you might be able to set aside very few acres under that, particularly if the farmer desires to keep on growing wheat or corn or whatever he is permitted to grow on these allotted acres.

Secretary FREEMAN. We will certainly consider this. As I say, it is something that I had not considered before. But I feel that I have not found anything in the Department of Agriculture that I think was as poorly administered as the so-called soil bank.

The CHAIRMAN. There were two. Which one?

Secretary FREEMAN. Both of them.

The CHAIRMAN. Both?

Secretary FREEMAN. They were about as poorly administered as any thing I have seen, and I might say I saw a number of things that I thought were not very well administered.

The CHAIRMAN. What we propose to do—we do not know who your successor is going to be, if every there will be one during our lifetime.

Secretary FREEMAN. Heaven forbid.

The CHAIRMAN. But the point is, if we adopt this, the point would be to write a little prescription there for you to follow. Because here you say that the first acreage to go into this program will be farm allotments or base acreage for crops.

Secretary FREEMAN. In surplus?

The CHAIRMAN. Yes, now covered by allotment or base acreage. In other words, would that mean that the allotment or the base would have to go in before any other land?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. What do you mean? What is “any other land?” Any other land that he——

Secretary FREEMAN. Grazing land, idle cropland.

The CHAIRMAN. Noncropland?

Secretary FREEMAN. Noncropland and land in crops not in surplus supply.

The CHAIRMAN. That is what you mean.

Secretary FREEMAN. That is right.

The CHAIRMAN. Noncropland.

Secretary FREEMAN. Noncropland and land in “nonsurplus” crops.

Senator AIKEN. May I ask this? Say Senator Young has 400 acres, 300 in grazing and 100 in wheat, and he decides to put his 100 acres of wheat into the program. Would you require him to fence that 100 acres?

Secretary FREEMAN. The land could not be grazed, and you probably would in this case have to fence it. It would have to be fenced probably.

Senator AIKEN. It would have to be fenced.

Secretary FREEMAN. It probably would.

Senator AIKEN. It should be fenced.

The CHAIRMAN. What is your definition of cropland?

Secretary FREEMAN. In this case we are thinking in terms of land which has a base on it for the production of a crop, and primarily for a crop that is in surplus supply.

The CHAIRMAN. As I remember it in the former law we had tame hay as a cropland.

Secretary FREEMAN. Tame hay could come out only if all of the allotted acres that had a base or a history on it had been retired under the program. Otherwise you could not get to tame hay at all.

The CHAIRMAN. Would it not be simpler simply to eliminate all pastureland or any land that does not produce a crop that is supported by the Government?

Secretary FREEMAN. No.

The CHAIRMAN. Is that what you mean?

Secretary FREEMAN. No, because in that case if all the cropland that has a base and that constitutes land in surplus crops has been retired, it may very well be that tame hay land and other land ought also to come in under a lower price, and so all of the acreage could be in the program because, in that particular person's given plan, this would be a logical and useful arrangement, and we would tend then to get the acreage we wanted in surplus crops.

Senator AIKEN. But suppose Senator Young is rotating his 100 acres of wheat, and one year he puts 100 acres into the program. Would it be the same 100 acres the next year, or could he take another 100 acres from another part of his 400 and put it into the program?

Secretary FREEMAN. No, he could not rotate.

Senator AIKEN. It would have to be the same identical 100 acres?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Just because it is on a longer term basis than a year, you think you are going to have the farmers agree to go into the program for a smaller payment per acre? A farmer getting \$20 an acre under the present program, that is on a year basis, you think might go into a longer program for \$15 a year.

Secretary FREEMAN. Yes.

The CHAIRMAN. Just because you have the 5 years.

Secretary FREEMAN. Yes.

The CHAIRMAN. Is that your idea?

Secretary FREEMAN. Yes.

The CHAIRMAN. I think you are very optimistic.

Secretary FREEMAN. Well, you said that yesterday, Mr. Chairman, and it may very well be. But our experience under the cropland conversion program indicates this would be the case.

The CHAIRMAN. All right.

Secretary FREEMAN. (2) To protect local communities, the program would be administered in such a way as to restrict the total acreage that might be diverted in any one county.

Senator YOUNG. Mr. Chairman, I would like to ask another question.

The CHAIRMAN. Senator Young.

Senator YOUNG. In the old soil bank program there was no restriction such as this.

Secretary FREEMAN. That is right.

Senator YOUNG. I believe it was finally put in effect but it was on just a county basis such as you are suggesting here. This did not correct the situation. At one end of a county practically all of the land could go into the soil bank and at the other end there was no retirement. Many communities were ruined by such action.

Senator JORDAN. Did you say many communities were ruined?

Senator YOUNG. Yes, ruined, because this restriction was applied only on a county level. At one end of the county too much land could be put in the soil bank and the other end of the county would have very little retirement. That was finally corrected by regulation under the soil bank program. If you only limit it by county here, Mr. Secretary, you will have the same problem again. You want to limit this by each community. You want to provide that only a certain amount could be put in the soil bank in each community.

Secretary FREEMAN. I think there is merit in that proposal.

Senator JORDAN. That is what we did in this tobacco bill just passed, because there was such a wide variation in the productivity of one county compared to others.

Senator YOUNG. Yes.

Senator MONDALE. Mr. Secretary, what is the restriction that is contemplated on this program on a county or local basis?

Secretary FREEMAN. As the statute now reads, or rather the proposal, it says:

The total acreage placed under contract in any county shall be limited to a percentage of the total eligible acreage in such county which the Secretary determines would not adversely affect the economy of the county.

Senator MONDALE. That is up to the Secretary.

Secretary FREEMAN. That would be up to him, and I think Senator Young's point is well made that this could also apply on a township level, and I would have no exception to writing that into the law.

Senator YOUNG. You would accept the concept of limiting land retirement on a community basis.

Secretary FREEMAN. Community or whatever would be more adequate.

Senator JORDAN. That is what we did on tobacco, as you know.

Secretary FREEMAN. Yes.

Senator JORDAN. Townships. Different States call them different things.

The CHAIRMAN. Mr. Secretary, as you go along, if you will, and if you are familiar with the Farm Bureau plan that has been before this committee for a number of years on crop diversion, compare it, if you know about the Farm Bureau, with the one you are suggesting.

Secretary FREEMAN. Let me just say this, Senator. I would comment generally—and I do not have the specific provisions of it clearly enough in mind, not having read it for some months—but the big difference is simply this. That the Farm Bureau proposal would take out indiscriminately any land that was offered. In a sense the Farm Bureau proposal is using a shotgun. You are spraying, and you are going to hit anything you can hit.

This proposal is more like a rifle. We are after certain kinds of land. We are after land that has allotment crops that are in surplus. That is our target. And the Farm Bureau is saying:

We will just take in anything we can get, and after we take in enough, in the process why we will get some surplus cropland with a history on it.

We think it would take 80 million acres to effectuate the purpose under the Farm Bureau proposal that we would be able to do with 40 million acres under this one.

The CHAIRMAN. And the reason is that the land that you would first consider would be cropland that produces surplus crops.

Secretary FREEMAN. That is correct. I think the Farm Bureau proposal is totally and completely unworkable, and I have said so a dozen times.

The CHAIRMAN. I did not mean to get into debate about it, but I know it has been kicked around before this committee for many years, and there were no takers up to now. But the reason I ask you the question is to get your views on it so that we would have something to talk about—

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. When Mr. Shuman comes before us.

All right, proceed.

Secretary FREEMAN. This would avoid severe harm to a county's farm base, as sometimes happened in the early days of the conservation reserve. In the case of C-R, such a limitation was put administratively into the program after it had been in effect for a time.

It has been suggested that in parts of the South, the cotton economy might be harmed if farmers put cotton allotments into CAP instead of releasing them for reapportionment. While we would not expect to take enough cotton allotments under contract in any one area to be detrimental to the local economy, we believe there are situations where farmers who have been releasing cotton allotments are as entitled as other growers—wheat and feed grain for example—to the benefits of an adjustment program. Cotton growers are as likely as other farmers to need help in retiring or assistance in taking advantage of off-farm employment. We would, as I say, operate the program in such a way as to avoid a harsh impact on any community or on the business interests concerned with cotton.

The CHAIRMAN. Mr. Secretary, should a cotton farmer or a wheat farmer or any other grower of a commodity that would come within the purview of this law—would they retain history on the acreage at the termination of the 5-year contract, assuming that a 5-year contract would be entered into, or would they lose it?

Secretary FREEMAN. They would retain it.

The CHAIRMAN. They would retain it?

Secretary FREEMAN. Yes, sir.

Senator JORDAN. Mr. Secretary, may I ask you a question. We have a serious problem in North Carolina. In our Sandhills area down around Pinehurst—that is a big peach-growing section down there—last winter it got down to 16 degrees, and the sap had started to rise in those trees, and it just simply split them, and they lost thousands of their trees forever. They are dead. Not too many crops will grow in that area. Cotton is one that will grow. Of course, peaches have never been under any control or anything else except at the marketplace.

Secretary FREEMAN. They have a marketing order.

Senator JORDAN. Yes, sometimes, not always. But anyway we have been looking around for something that we could plant in some of those areas because they just had to pull up the trees, whole orchards. Some of those farms had cotton allotments and some of them did not. Maybe a farmer had peaches on his farm and the next farm adjoining it had a cotton allotment which was not planted. Keep that in mind, and let us see what we can come up with in that area.

Secretary FREEMAN. All right, sir.

Senator JORDAN. You know there are certain lands that will not grow anything but certain crops.

The CHAIRMAN. It would seem to me that it would not be bad to put in the law that if a farmer decides to put his land into tree planting for 10 years, and at the end of 10 years he chooses to cut those trees down, he ought to be penalized somewhat. That would be my view, because there is no sense in paying him to plant the trees and do a little hoeing around them and pay him for 10 years and then let him go in there and chop them all down and plant something else on this acreage.

Senator JORDAN. You are talking about——

The CHAIRMAN. This same principle would apply I believe; Mr. Secretary, you answered a while ago that the history of the cotton farmer, the wheat farmer, the grower of any other commodity that is in surplus would retain history. Now, that would be at your discretion. It is not written in the law, is it?

Secretary FREEMAN. I think it is in the law.

The CHAIRMAN. Page 45:

Notwithstanding any other provision of law the Secretary of Agriculture may, to the extent he deems it desirable, provide by appropriate regulations for the preservation of croplands, crop acreage and allotment history.

So it would be at your discretion. You would not mind if we wrote that in the law to make it so——

Secretary FREEMAN. No.

The CHAIRMAN. That history would not be lost.

Secretary FREEMAN. No objection.

The CHAIRMAN. All right.

Senator HOLLAND. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes, Senator, proceed.

Senator HOLLAND. I am interested in your point 1 at the top of page 29:

The first acreage to go into the CAP on any participating farm would have to be farm allotment or base acreage for crops now covered by annual commodity programs.

In the peninsula of Florida, which as you know is a very heavy agricultural producing area, there is little or no acreage in such a program. They are not producing price supported crops. How, if at all, does this program apply to such an area?

Secretary FREEMAN. It would not.

Senator HOLLAND. Our crops are fruits, berries, melons, vegetables, sugarcane, and things of that kind which do not seem to come under your general description here. Now, how would this program apply to that whole peninsula area in Florida?

Secretary FREEMAN. Actually, Senator Holland, the program is designed to reach land producing crops in surplus supply. As such it would not affect an area like yours which does not produce crops in surplus supply.

Senator HOLLAND. In other words, in an area where we have much more acreage than we actually use but try to confine our plantings of annual crops, row crops, to what the market will take, the restraint of the farm people in that regard would not be recognized by allowing them to place any acreage whatsoever in the CAP, is that correct?

Secretary FREEMAN. That is correct.

Senator HOLLAND. It seems to me then that this is one feature of this program that I would want to explore a little further, because there are areas where even in the crops that are crop supported, restraint has been used. Farmers are trying to raise crops in such amounts as to simply supply the market. That certainly has to be true in our areas where the crops are not price supported, and I doubt if there would be a feeling in such areas that the people who were using restraint and who were producing solely for markets should be left out of an important program of this kind.

What comment do you have to make on that?

Secretary FREEMAN. The Senator directs attention to another dimension of this whole thing, and that is whether in an area as he describes it which does not have surplus crop production——

Senator HOLLAND. It could have if there was not restraint used. It could have if there was not a reasonable planting.

Secretary FREEMAN. In such an area, because it does not produce the crops that are in surplus supply, whether there ought to be——

Senator HOLLAND. It does not produce crops that are in surplus which the Government takes over. But sometimes we have surplus. Sometimes we have to plow them under.

Secretary FREEMAN. Yes, sir.

Senator HOLLAND. We would always have surpluses if there was not some planting and restraint in the planting.

Secretary FREEMAN. I would certainly join in what the Senator says, that in the area to which he refers, the effective use of marketing orders has made possible the application of producer self-discipline to prevent, primarily in the fruits and vegetables, the kind of surpluses which have plagued us in other commodities.

Now whether that accomplishment—and it certainly is one—ought to be recognized in such legislation by making it possible for that land to come under the conservation adjustment program is certainly something to be considered. We have not felt that it should, because the objective of this act, rather than to reward those who had been effective in managing their own commodities, has been to try and meet our problems of national surplus of certain commodities at a minimum cost. Therefore, we did not have in mind, to be very frank, Senator Holland, the commodities that were not in surplus supply.

Senator HOLLAND. Of course in the earlier program the conservation reserve did allow a chance for people who had more acreage than they were actually using, and who were using some restraint, to place acres into conservation reserve status. In our State they generally went toward forestry plantings.

Secretary FREEMAN. Yes, sir.

Senator HOLLAND. There is no such place in this CAP program that you have worked up?

Secretary FREEMAN. Well, as the bill—the language now stands, the Secretary would have the discretion to permit this, and there is some merit in the point that you are making. Actually what I have said, Senator Holland, is that on farms where there are base historic allotments of surplus crops, those allotments would need to come under the act before other kinds of land could come in.

Now, in the area to which you referred, there is no allotment of those kinds of commodities. The question of the application in such cases is one that I frankly had not thought about before you brought it to my attention, and I believe it has some merit.

Senator HOLLAND. Well, of course we have this problem extending throughout the peninsula area of Florida, and it extends through a large part of California. It extends through parts of other States——

Secretary FREEMAN. Yes.

Senator HOLLAND (continuing). Where the production of perishables is the principal activity.

Secretary FREEMAN. Right.

Senator HOLLAND. It seems to me that any large new program ought to give some thought to an inclusion of opportunity to people of that kind who are using restraint, who are not employing their full acreage, who, if they did, would immediately bring important crops into high surplus production, and if the program does not envisage an opportunity for such people, I think it ought to be examined carefully——

Secretary FREEMAN. Yes, sir.

Senator HOLLAND (continuing). To see if it can be changed so as to include some of them.

Secretary FREEMAN. The language would, and as you bring this into sharp focus, I think there is real merit in what you say, and in some of these areas, tree planting, for example, is something that perhaps should be included within the program.

The CHAIRMAN. If you make such changes, the program will not differ very much from the old program that you are now criticizing.

Secretary FREEMAN. No——

The CHAIRMAN. In its application.

Secretary FREEMAN. This is not a real change. This, I think, Mr. Chairman, refers to an area where there is no allotment.

The CHAIRMAN. I understand, but yet under the law or the suggestions you are making to us, the only land that would be amenable to the act would be those in which crops produced are in surplus.

Secretary FREEMAN. This is our prime target.

The CHAIRMAN. Yes.

Secretary FREEMAN. There may well be conditions and circumstances, as Senator Holland points out, where it would be sound to apply this principle to land on a farm that did not have any surplus crops. I would want to give that some careful thought.

Senator HOLLAND. For the time being, Mr. Chairman, I simply wanted to bring up this point so it can be studied in the Department. I think we have too long had an approach that is simply designed to help people who are not showing restraint and who are producing surpluses, and doing so to sell to the Government because that is what the fact has been. We have not been recognizing in recent years, I think, sufficiently, the rights of people who have been showing restraint, who have been measuring their production against what the market will take, and who I do not want to see left out entirely.

The CHAIRMAN. I am not quarreling with the Senator from Florida on that.

Senator HOLLAND. I understand that, but I wanted to make it clear that I am not at this time shooting at this program except that I am asking about this additional aspect of agricultural production, that it be studied, because I know that there is dissatisfaction enough in areas such as my State and California and other areas, for instance in New Jersey and Delaware, in the current programs which have given emphasis to the protection of people who are not protecting themselves. I think we have gone far enough in that direction.

I thank you, Mr. Secretary, for your restrained comment. I hope I have been restrained. I think there is a problem that you had better study.

Secretary FREEMAN. Yes; we will do that, Senator Holland.

Senator YOUNG. Mr. Chairman, could I ask one more question?

The CHAIRMAN. Yes, Senator.

TRANSFER OF ALLOTMENTS

Senator YOUNG. Mr. Secretary, later in your statement you discussed your proposal to allow the sale and transfer of allotments under certain conditions. Would it be possible—aside from any judgment you may use—under the bill as you propose it for a wheat farmer, say, to sell his allotment from a certain amount of land and then later put this same land in the soil bank? Would the law permit that?

Mr. JAENKE. Sell a wheat allotment?

Senator YOUNG. Yes. You are proposing certain sales of allotments.

The CHAIRMAN. That is the next title.

Senator YOUNG. Yes. What I am asking is, should that provision be approved by Congress, would this permit a farmer to sell his wheat allotment, for example, and then put his land in this land retirement program?

I know you would not do that as a matter of judgment, but would the law permit it? Supposing some future Secretary of Agriculture wanted to do it, could he?

Secretary FREEMAN. I think—and I would have to study the language again, because I had not thought of this—I think that this could be possible. It would move along in the direction that Senator Holland was talking about. As to whether you would take land under the CAP from a producer who had no allotment, I would certainly prescribe a regulation, for example, that would say that someone could not put land under who had sold an allotment within let us say 3 years.

I would preclude doing what you point out, which would clearly be an abuse. But whether it could be done under the language, off-hand I rather think it could, but I would want to study that language very carefully again before I gave a solid answer.

Senator YOUNG. The big trouble with the old soil bank program was that they did not have to retire the allotment along with the land. They could transfer this to some other land.

Secretary FREEMAN. Yes.

Senator YOUNG. If you simply required that any allotment belonging to a certain piece of land going in the soil bank or in the land retirement program be taken out of production I think that problem would be met.

Secretary FREEMAN. Definitely; you are of course absolutely correct. This was one of the real breakdowns.

Senator YOUNG. Yes.

Secretary FREEMAN. And we would see to it that that did not happen.

Senator COOPER. May I ask a question at this point, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Senator COOPER. I know the Secretary has stated that one of the purposes of his proposal to permit the sale of allotments is to enable younger people to get into the farming business and to help small farmers. Don't you think, though, there is a possibility that large operators—the big farmers with money, equipment and land—would more likely be the ones able to bid up and purchase these allotments to further strengthen their own position?

Secretary FREEMAN. Your question now runs to the question of the sale and lease of allotments—

Senator COOPER. Yes.

Secretary FREEMAN (continuing). And I would answer that by saying, Senator Cooper, that we would provide that allotments could not be sold to producers above a certain family farm adequate size operation so that we would prevent precisely the kind of abuse to which you direct attention, that one producer might end up controlling all the allotments.

Senator COOPER. As far as Burley tobacco is concerned, you will remember that the allotments are not transferred——

Secretary FREEMAN. Yes.

Senator COOPER (continuing). Leased or sold. We see a tendency, even so, for the large operator and the rich farmer to increase his total holdings and acreage allotments.

Secretary FREEMAN. This is a problem.

Senator COOPER. I cannot help believing the sale of allotments would move much more rapidly in that direction.

Secretary FREEMAN. But by the same token now the bigger, richer farmer can and is buying both the land and the allotment.

Senator COOPER. He buys the land; yes.

Secretary FREEMAN. And he gets the allotment with the land. So in this instance the smaller—let us say the smaller farmer that had some land or the young man who wanted to get a viable operation might have some land—could get an allotment without having to buy the land. And with safeguards administratively to prevent the kind of concentration to which you properly direct attention, I think that could be avoided, and the advantages of trying to help a smaller operator to get a viable unit so he can make a decent living in farming would be realized.

Senator JORDAN. Mr. Secretary, may I ask a question?

I am speaking now altogether of cotton at this particular time. Under the recent release and reapportionment, this would completely kill that, would it not?

Secretary FREEMAN. No, sir; it would affect it hardly at all.

Senator JORDAN. Well, to an extent. When a farmer now releases cotton acreage in a county, he turns it in. He gets nothing for it, you see.

Secretary FREEMAN. That is correct.

Senator JORDAN. He does not get any pay for it. Now, if you paid him something, he would not release it. He would put this under the program, you see.

Secretary FREEMAN. No; this is just not correct, Senator Jordan, and there have been some people saying this. There have been some people up here talking with Members of Congress making this point. We have studied this very carefully, and it is just not so, because what our studies and careful analysis show is this: That most of the allotments that are released and reapportioned come from land which is being used for other purposes. Most of it is being used for soybeans or it is being used in a cattle operation. And then the cotton allotment is being released.

Now, if there was a conservation adjustment program, these people would not put the land under it in all likelihood, because they are making more money using that land than they would make putting it

under the CAP. They would continue to do so as they have done in the past on release and reapportionment, which would be affected in a very minor way.

Senator JORDAN. Of course that is a possibility.

Secretary FREEMAN. Yes, sir.

Senator JORDAN. On these acres that they do release he can plant anything he wants to there.

Secretary FREEMAN. Yes.

Senator JORDAN. Except crop——

Secretary FREEMAN. Anything. He has got to have an allotment. He could not plant cotton.

Senator JORDAN. Or wheat or cotton or something else on it.

Secretary FREEMAN. He could plant wheat, corn, soy beans. The only thing he could not plant would be rice, tobacco, and cotton.

Senator JORDAN. If he had an allotment on the farm, he would have to take it off some other part of the farm, would he not?

Secretary FREEMAN. For those crops, there are not any allotments and they are free to plant anything.

Senator JORDAN. I understand that, but he can plant on those acres and still release that acreage——

Secretary FREEMAN. Exactly.

Senator JORDAN (continuing). To somebody else there.

Secretary FREEMAN. And the point I make is that that is what he is doing. In most individual instances that we have studied, he would continue to do it because the CAP would usually not be attractive to him. It would be attractive to some small cotton producers that are not releasing anyway. It would have the effect of getting some cotton out of production which we want to accomplish, and it would not, we think, adversely affect the current release and reapportionment which is getting acres to some operations that are currently close to being viable.

So particularly in the Southeast, Senator Jordan, where you are concerned and where Senator Russell is concerned and this point is being made, I would say quite emphatically, because we have studied this quite carefully, that this would not have a serious adverse effect on release and reapportionment.

So I just do not think that is a valid objection. But it is being strongly made by some people, and that is why I emphasize it with some, shall we say, vehemence here today.

CROPLAND ADJUSTMENT

Senator BOGGS. On that point, Mr. Chairman, may I ask a question, because I am not sure I understand it. In Senator Young's case, for example, if they took the 100 acres and put it in the CAP, what could you do with the 100 acres? You could not graze on it.

Secretary FREEMAN. No, sir.

Senator BOGGS. Because that is prohibited by the law. What could you do with that 100 acres?

Secretary FREEMAN. It could be used for noncropping purposes. It could be used for recreation, it could be used to develop cover on it that would result in——

Senator BOGGS. Trees?

Secretary FREEMAN (continuing). Potential for hunting. It could be used as a part of an overall conservation approach that might

result in fishing. It could be developed for a host of recreation purposes.

There is a special provision here I will come to in a moment where the funds could be used and transferred to a local unit of government which might want to acquire some of this land as a part of a recreation program or project, and permanently retire it.

And so this has conservation, recreation, wildlife, suburban planning implications, and provides an additional resource for that purpose.

Senator BOGGS. Thank you. But they could not grow another crop on it.

Secretary FREEMAN. They could not grow another crop on it.

Senator BOGGS. Of any kind.

Secretary FREEMAN. No, sir.

Senator BOGGS. I see. What percentage on the recreation program? Have we got much recreation built into it already?

Secretary FREEMAN. You mean into our program?

Senator BOGGS. Yes.

Secretary FREEMAN. We have a good bit in the earlier part, Senator Boggs, where I have presented some numbers on this. We estimate that today approximately 30,000 farmers in the last few years have gone into recreation in whole or in part as a part of their operation. There are a great many nonprofit associations that we have assisted with loans and technical assistance, and therefore a number of communities that we have done the same for. There has been a steady—not a real rapid—but a steady movement in this direction, and it is one that I have strongly emphasized because I think that the essence of solving this problem is not to continually retire and pay for land, but to use every means we can to get land into needed uses, of which we are going to have more and more. Recreation is one, and we ought to use every device we can to move land into use, not into nonuse.

Senator BOGGS. Thank you.

Senator RUSSELL. May I ask the Secretary a question?

The CHAIRMAN. Yes, Senator Russell.

Senator RUSSELL. Do you have any statistical material provided to back up your statement that these acreages released from cotton allotments in southeastern States have transferred over into other production?

Secretary FREEMAN. Yes.

Senator RUSSELL. We have got areas in my State which I do not believe that to be true of.

Secretary FREEMAN. You mean examples of land that was in cotton that is now in recreation?

Senator RUSSELL. No. You used the illustration soybeans, and, of course, in some areas in our State that is true. But we have a number of areas——

Secretary FREEMAN. Oh, yes, what you are saying is this. Is the land from which a cotton allotment has been released and reapportioned being used to produce something else? Yes.

Senator RUSSELL. I understood that to be your argument.

Secretary FREEMAN. Yes.

Senator RUSSELL. Contrary to Senator Jordan's statement.

Secretary FREEMAN. Yes, sir.

Senator RUSSELL. I did not understand that that was the fact in our State. So if you have any material, I would like to see it.

Secretary FREEMAN. We will have some. We have looked at this more closely in North Carolina and in a number of counties where this has been established, and I am confident it is true in South Carolina as well, and, Ed, make a note of this, and we will get some information to you on it.

(The information is as follows:)

JUNE 15, 1965.

Memorandum to the Secretary:

In some of our conversations in the past, I have indicated that in my opinion the inclusion of cotton in the cropland adjustment program would not materially affect the release and reapportionment provisions. My feeling on this is based primarily on two things:

- (1) The acreage placed under the conversation reserve phase of the soil bank program (long-term contracts) and
- (2) The fact that a cropland adjustment program would prohibit use of the land covered by a contract.

Attached is a table indicating the acreage by States that was placed under long-term conservation reserve contracts under the old soil bank program. You will note that only 48,000 farms having a cotton allotment of 628,000 were really placed in the old conservation reserve. Almost half of this acreage came from the State of Texas. In the case of Alabama, Mississippi, Georgia, and South Carolina, the acreage was nominal.

Since acreage signed up under the cropland adjustment would prohibit use of the land, I thought it would be interesting to find out what use was being made of the available land on farms that were actually releasing cotton. I asked the North Carolina State ASC office to make a survey in four counties that release a substantial acreage each year. Their reports were as follows:

Johnston County: A large agricultural county. One-half of the land from which cotton was released is planted to soybeans, with the remainder divided equally between sweet potatoes and designated acreage under the feed grain program.

Wayne County: An agricultural county. Practically all the acreage from which cotton was released devoted to soybeans.

Sampson County: An agricultural county, releasing a substantial acreage each year. Fifty percent of the land from which acreage released devoted to soybeans, 25 percent to truck crops, and 25 percent idle.

Rowan County: An industrial, agricultural county. Practically all of the land from which cotton was released devoted to production of hay and used for grazing.

This information is the basis for my belief that a cropland adjustment program would not seriously impair the release and reapportionment.

H. D. GODFREY.

Cotton acreage allotments on farms under conservation reserve contracts which do not permit harvesting any cotton, 1960

State	Total		State	Total	
	Number of farms	Acreage		Number of farms	Acreage
Alabama.....	4,764	41,028	Missouri.....	302	2,212
Arizona.....			Nevada.....		
Arkansas.....	3,995	39,440	New Mexico.....	86	1,627
California.....	7	314	North Carolina.....	2,661	22,553
Florida.....	520	2,578	Oklahoma.....	4,458	66,419
Georgia.....	7,607	79,826	South Carolina.....	5,555	53,746
Illinois.....	21	200	Tennessee.....	3,091	21,496
Kansas.....			Texas.....	10,832	256,597
Kentucky.....	120	342	Virginia.....	64	151
Louisiana.....	1,364	16,591			
Maryland.....			Total, United States....	47,917	628,385
Mississippi.....	2,470	23,265			

NOTE.—Acreage and number of farms represented by whole farms participating in the conservation reserve.

Senator JORDAN. I would like to have a good deal of information on that, because it has concerned me quite a good deal.

Secretary FREEMAN. Yes; I know it has.

Senator JORDAN. Because there has been a lot of work on it.

Secretary FREEMAN. There has been a lot of work done up here to say that this was going to kill release and reapportionment, and that is just not true.

Senator JORDAN. We just want to be certain that you have something to back it up, because it has been a tremendously fine program for our State.

Secretary FREEMAN. Just quickly, Senator Russell, and we will get to South Carolina, but the question runs to North Carolina, Johnson County, N.C., which is a large agricultural county; one-half of the land from which cotton was released is planted to soybeans. The remainder is divided equally between sweetpotatoes and designated acreage under the feed grain program.

Wayne County, in this case practically all of it was in soybeans. Sampson County, 50 percent in soybeans, 25 percent in truck crops, 25 percent was idle in this case.

Now, in this case that 25 percent might be affected.

Rowan County, in this case it was used for grazing, with the strong likelihood that that would be the economic use and it would not be apt to change.

And so, although there could be—do not misunderstand me—there could be some effect, we think it will be very minimal and history of the conservation reserve will substantiate this because if I remember it, physically less than 5 percent of the land that went into the conservation reserve was land in South Carolina that had allotment release and reapportionment. In other words, apparently, then, it is being used for some other purpose as well. Otherwise it would have gone under the conservation reserve. I feel quite confident about that.

Senator BOGGS. But under this program, Mr. Secretary, it could not go into anything else; could it, except recreation?

Secretary FREEMAN. Not for crops; it could not. But the point here, Senator Boggs, that these gentlemen are concerned about is that the allotments that currently are being released and reapportioned would no longer be released and reapportioned because that land would go under the conservation adjustment program and could not be released. That is their point.

Senator BOGGS. Yes; I see.

Secretary FREEMAN. My point is it would not come under as an economic fact of life, and that is the point.

Senator BOGGS. I see.

Senator JORDAN. I would like to have some good figures on that, because it concerns a lot of our farmers down there. We have about a thousand cottonpickers in North Carolina—you know they are expensive machines—and we do not have many large farms down there—but they do custom picking. They go from farm to farm, and that is the only way they can support one of them.

Well, it is impossible to get enough hand labor now to pick a cotton crop of any size, and it is not economically possible either from the standpoint of price. That has been made possible entirely, I think, through this release and reapportionment. They have managed to

get enough acres to justify this. You cannot do a half acre with a cottonpicker, or an acre. You have got to have some acreage.

Secretary FREEMAN. We will be happy to do that. As I say, there has been some confusion about this, but it might be apropos to point out, at this point, that the same people who are opposing the CAP—because of the fact that it might in their opinion affect release and reapportionment—are strongly urging the sale of allotments. Well, now, if you have the sale of allotments, why, you have answered the problem on release and reapportionment, because then you are going to have a higher price and it is going to be a commercial transaction, in effect, and the same people who are getting release and reapportionment want to get it permanently. This is the way to get it. So the two go together.

If you have sale of allotments, you then cancel out the objection to an adverse effect by CAP on release and reapportionment.

Senator RUSSELL. Competition in other words.

Secretary FREEMAN. Well, the price that would be paid for a permanent allotment would be so much higher than the CAP that I do not think there is any real competition, Senator Russell.

The CHAIRMAN. You may proceed.

Secretary FREEMAN. (3) The cropland adjustment program would not encourage whole farm enrollment, as did the conservation reserve. Farmers left the community, and even the State. I know from my own observation that this happened in northern Minnesota, with destructive effects on rural and smalltown institutions. The cropland adjustment program would, in contrast, make it possible for farm people to gradually retire, without loss of income, and remain on their own land in their own community. Of the 3.5 million farms in America, some 1.4 million are operated by people 55 and over. Many of these would be attracted into CAP, and very few would be encouraged to pull up stakes. Similarly, the younger farmer who needs off-farm employment would be helped to stay on the land with his family.

(4) The cropland adjustment program would discourage arrangements under which a professional man or businessman in a city or town would be able to acquire a farm specifically in order to enroll it in the program and have the Government help pay for it. A farm, in order to be enrolled in CAP, would have to be owned and operated for 3 years by the individual who puts it into the program.

(5) In the case of the conservation reserve, land was simply locked up, and no attempt was made to use it. Under the CAP, the administration would seek every possible way of getting public benefit from the land. The new enthusiasm for conservation, pollution control, and the preservation of the natural outdoors offers a great many possibilities for the wise use of this land.

And this brings me to my second point. The cropland adjustment program has a broad and long-term significance for all people. It is not a program which benefits the farmer alone.

Conservation practices on CAP land would help insure a steady supply of clean water for home, industrial and recreational uses. The land in CAP would be covered with grass and trees year round, and its wide dispersion throughout the Nation would provide benefits to large segments of the urban population, many of whom now have little opportunity to enjoy the outdoors.

The CAP would encourage local governments, including cities and towns, to acquire land for outdoor recreation use. This would help local governments to preserve open spaces, to protect wildlife, to provide recreation, and to prevent water pollution. For example, a local government might want to acquire land for a park or other public use, and the Federal Government would, under certain conditions, be able to reimburse the local agency. We will encourage farmers to make the CAP land available to nonfarmers for recreational use.

Shifting acres out of unneeded crops into conservation uses benefits all the public—not just farmers. The farmer makes his land available for uses that benefit the public more than himself. The public in fairness contributes to the cost of this adjustment. This is part of the philosophy behind the cropland adjustment program. This is a farm program to serve farm and nonfarm people alike.

The CHAIRMAN. At that point, Mr. Secretary, what part of the funds appropriated for CAP might be transferred to local governments to require cropland development and recreation areas? Is it left to your discretion to do that, or is there anything in the law that would permit you to allocate certain amounts of whatever is appropriated?

Secretary FREEMAN. Well, as a practical matter, Mr. Chairman, this could only be done where land is concerned that a city, let us say, would wish to acquire, and that would by the nature of things not be in unlimited supply. I hesitate to put a percentage on it, but let us say at the outside there might be 25 percent of this, where you might have a situation where the city would like to acquire the land for a park, and where the amount of money that would go to retire that land for 10 years under the CAP could then be made available to supplement the purchase. It would not cost any more. It would be land you want to take out anyway. In this case it would merely mean combining with the city or the county so that you could supplement their efforts and get the land permanently retired.

The CHAIRMAN. To what extent would the city authorities be limited as to the use to which they would put this land? For instance, parks, golf courses, or things of that kind. Do you have any say in that?

Secretary FREEMAN. Well, this would be discretionary. If we felt that the use involved in the whole program was not a sound one, why we could refuse to cooperate. But inasmuch as the land is not going to cost us any more and it is going to get out of production—at least for the period it would be out—why, our stake in the validity of the project is relatively minor. We have nothing to lose and everything to gain.

Senator JORDAN. Mr. Secretary, for that purpose you would only go in to remove cropland from production. You would not remove stuff that was not in production now.

Secretary FREEMAN. No. As I said earlier, we would require that the allotments of surplus crops should be retired before we could get to the question of additional land.

Senator JORDAN. I know there have been a number of golf courses built, and I had some people down in North Carolina that wanted to build a golf course, and when we got to checking into it, the land was not in cultivation anyway.

Secretary FREEMAN. Yes.

Senator JORDAN. So they turned it down.

Secretary FREEMAN. Yes, that is right.

Senator JORDAN. And I think rightly so. That would not take anything out of production.

Secretary FREEMAN. Senator, under section 504(b) the uses for permanent retirement, where we could cooperate with local people, are specified as preservation of open spaces, natural beauty, development of wildlife and recreation facilities, and the prevention of air and water pollution.

The CHAIRMAN. That is on page 45 of the bill; is it?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. There is no limitation there as to your ability to pay the whole price of that land if you want to; is there?

Secretary FREEMAN. Yes, sir. The amount that we would pay to retire that, to bring that land under CAP, is all that we would be paying in any event. We would not be paying the whole bill for that.

Let us assume that it took \$10 an acre to get 100 acres into the CAP. That would be \$1,000. If a town wanted to buy that land to make a park, they would deal with the owner of that land. But we would be able to make available \$1,000 to them to supplement the purchase of that land in return for the binding commitment for a 10-year period that that land would not be used for cropping. And it would help them raise the money to pay the price and it would help us by getting the land into a permanent use which presumably then would last beyond the 10 years.

The CHAIRMAN. In other words, what you would pay to the farm would be paid to the city for acquiring it.

Secretary FREEMAN. Yes, exactly.

Senator BOGGS. On that point, Mr. Chairman, might I ask the Secretary a question?

The CHAIRMAN. Just a second.

Would that be left to your discretion or is it written in the bill?

Secretary FREEMAN. We could do this. It is left to our discretion. We would have to.

The CHAIRMAN. But as to the amount—I am reading now from the top of page 45 of the bill, (b) :

For the purpose of obtaining an increase in the permanent retirement of cropland to noncrop uses, the Secretary may, notwithstanding any other provision of law, transfer funds appropriated for carrying out this title to any other Federal agency or to States or local governmental agencies for use in acquiring cropland for the preservation of open spaces, natural beauty, the development of wildlife and recreation facilities, and the prevention of air and water pollution.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Now, there is no limitation there as to the amount.

Secretary FREEMAN. Well, the limitation would be the same as the limitation on administering the program generally. In other words, this land would be treated no differently than other land in connection with whatever amount might be appropriated, and made available to the Secretary to administer the overall program.

The CHAIRMAN. There would be no objection to make it more specific if we see fit.

Secretary FREEMAN. No, sir.

The CHAIRMAN. Senator Boggs?

Senator BOGGS. I just wanted to ask if you have estimated what percentage of the 40 million acres might go into recreation?

Secretary FREEMAN. I used the figure 25 percent a little bit ago. I think it is probably high. It is very hard to tell. I almost think there is going to be a good deal more than my staff thinks on this.

Senator COOPER. A few moments ago you gave an example of the contribution that might be made, say \$10 an acre for 100 acres. But you would have a 5- to 10-year contract. Would the contribution not be larger, assuming that you had a 10-year contract? It would be \$100 an acre over the 10-year period. Would you contribute the \$10,000 instead of the \$1,000 you mentioned a few years ago?

Secretary FREEMAN. You are suggesting, if I understand you right, the possibility that we might go higher under such cases?

Senator COOPER. As I understand it, you are going to enter into a 5- to 10-year contract. I thought your example a few minutes ago suggested that you would contribute say the first payment for 100 acres at \$10 an acre. But if you paid \$10 an acre over a period of 10 years——

Secretary FREEMAN. It would be higher, yes, sir; you are exactly right. That would be a higher figure then. It might be \$10,000 if it was 10 years.

Senator COOPER. So far as the annual cost to the Federal Government is concerned, there would be no difference——

Secretary FREEMAN. There would be no difference.

Senator COOPER (continuing). At all.

Secretary FREEMAN. No. Your point is well made.

Senator COOPER. I might say I think this would be a good program. I have noticed in my own State, which is an agricultural State, that in small towns—and I live in one—it is surprising that even in rural communities you just do not find any parks in small towns anymore.

Secretary FREEMAN. Yes.

The CHAIRMAN. Senator Cooper, as you know we have a program now, and we cannot get Congress to appropriate more than \$10 million a year to administer it.

Senator COOPER. I know that. It was authorized in the bill we passed a few years ago.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. To get one here with almost a half billion dollars, I envision a little more trouble in getting it through.

Senator MONDALE. Mr. Secretary, I notice that the provisions that relate to assistance of State and local agencies in acquiring this cropland relate to primary conservation objectives. Would you have any objection to an amendment that also included assistance of this sort to acquire the same land for diversification or commercial purposes? I have in mind business objectives like an industrial park located next to one of these communities.

Secretary FREEMAN. No; from a technical standpoint. As a practical matter, however you may run into some objections in this connection on the whole problem of industrial shifts from one area to another.

Senator MONDALE. In northern Minnesota, as you know, most of those counties are also redevelopment areas under the Area Redevelop-

ment Act, and now will be under the Economic Development Act. One of the things we hope to do is develop diversified business in the area. If some of this cropland could be purchased for a modest industrial park or some other similar commercial effort, it might be most helpful for those communities.

Secretary FREEMAN. I think there may be some merit to this. We would need to study this to find if there would be any objection to expanding the purposes to include that.

The CHAIRMAN. In such an event, who would pay for the land, the Government?

Senator MONDALE. The same theory, a conservation purpose.

Secretary FREEMAN. It would be the same. If the city was going to have the industrial park or if there was a nonprofit association, I suppose you could cooperate with them. In any event it would not cost the Government any more.

The CHAIRMAN. It would seem to me that to buy the land and put it out of cultivation altogether would be a more expensive program than merely paying to keep it out for a certain period.

Secretary FREEMAN. No, I think it would be the same, Senator, whether it was used for an industrial park purpose or whether it was used for an outdoor recreation purpose.

The CHAIRMAN. Suppose a farmer has let us say a hundred acres near a small city, and under this act we would offer to pay him let us say \$1,000 a year not to cultivate it, not to produce, and at the end of 5 years he could get a contract that would amount to \$5,000. Am I to understand that if the city—if this city nearby desires to purchase this land, that the Government would put up the amount that it would pay to the farmer to keep it out of production? Is that the extent of it?

Secretary FREEMAN. Yes.

The CHAIRMAN. In this case it would be \$5,000.

Secretary FREEMAN. Yes.

The CHAIRMAN. And the city would pay the difference.

Secretary FREEMAN. Yes, that is exactly how it would work.

The CHAIRMAN. That, however, is not written in the law.

Secretary FREEMAN. Well, it is written in the law that——

The CHAIRMAN. You have got that notwithstanding clause I just read.

Secretary FREEMAN. Let me take a look at the law again.

No, this authorizes us to do this.

The CHAIRMAN. Yes.

Secretary FREEMAN. It does not make it mandatory, but it does authorize us to cooperate with the local government to do that.

The CHAIRMAN. But since the intent is to make the amount payable to the city by the Government equal to that which would be paid to the farmer——

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. I think it ought to be made more specific than you have it written in the act at the moment, at the present.

Secretary FREEMAN. That could be done.

The CHAIRMAN. Proceed.

Secretary FREEMAN. There would be provision in title V to permit the Secretary to protect crop and acreage history on land which the

owner is shifting to more desirable uses—with or without a formal adjustment or cost-share program. This would provide protection for farmers entering into CAP, but it also would apply to cooperators in other Federal programs. Of course, farmers who already have history protection under existing law would not have this safeguard disturbed.

The CHAIRMAN. That would again be discretionary on your part.

Secretary FREEMAN. I believe as it is now written, yes.

The CHAIRMAN. All right, we now come to the transfer of allotments.

TRANSFER OF ALLOTMENTS

Secretary FREEMAN. Title VI of the proposed Food and Agriculture Act would authorize transfer by lease or sale of acreage allotments. This would provide a number of advantages in the case of crops for which mandatory programs are in operation, or for which little acreage is planted outside allotments. It is doubtful that it could be used for crops, such as feed grains and wheat, with voluntary programs and substantial noncompliance.

The transfer or sale of allotments, as contemplated in this bill, would be carried out within a number of stringent guidelines, to prevent abuse and to avoid harm to the economy of any producing area. For example:

- (1) Transfers across State lines would not be permitted.
- (2) Transfers would be authorized only if the operation of the program would not be impaired.
- (3) Lienholders' rights would be protected.
- (4) Downward adjustments would be made in allotments which were transferred to a farm with a substantially higher yield per acre.
- (5) The size of resulting allotments would be limited within the basic objective of allowing the transfer of enough allotment to provide a good living on a family-size farm.

The CHAIRMAN. Mr. Secretary, would that mean that it would give you the authority to transfer—I mean to permit the sale of these allotments, which would result in the growing of crops on land other than in the county in which the transferor's farm is located?

Secretary FREEMAN. Yes.

The CHAIRMAN. So that it would be possible to transfer the allotments, quite a large percentage of an allotment let us say in cotton or in wheat from one county to another.

Secretary FREEMAN. Well, subject to the limitation that it should not be disruptive to the economy of either county. Appropriate adjustments would be made for differences in productivity.

Senator JORDAN. Mr. Chairman. That is the case now under the release and reapportionment of cotton.

Secretary FREEMAN. Except you do not sell it. You give it away.

The CHAIRMAN. This you sell.

Senator JORDAN. You are talking about selling. You are correct.

The CHAIRMAN. This is permanent.

Secretary FREEMAN. This would be a permanent sale.

Senator JORDAN. Yes.

The CHAIRMAN. This is a permanent proposal.

Senator JORDAN. You are right.

The CHAIRMAN. Now, is this authority that you are now speaking of, the limitations under which these transfers can be made, is that written in the law or is that left to your discretion?

Secretary FREEMAN. The language is pretty general in connection with it, but let me read it. It is on page 47: "1. It has to be within the State."

That is clear. Protection on mortgage liens is specific. The procedures whereby you would have to file a notice with the county committee is specifically outlined. The adjustment of productivity is specified.

The CHAIRMAN. How about No. 5? That is the one I had reference to. Your statement, page 32.

Senator RUSSELL. That is on page 48.

The CHAIRMAN. In the bill at the top of page 48 you say:

Reasonable limits on the size of the resulting allotments on farms to which transfers are made and such other terms and conditions as he deems necessary.

That of course means discretionary power on your part.

Secretary FREEMAN. Yes; and this is one where I think a good bit of discretion will be required, because the language, of course, could be perhaps sharpened, but what constitutes adequate size and not an excessive size, and which is within the general term of family farm is not subject to too precise a definition, and varies around the country and—as the chairman well knows—from commodity to commodity.

The CHAIRMAN. I just want to bring out that it is more or less discretionary.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Left to you to decide the size of the farm that would be covered.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Senator Bass.

Senator BASS. Mr. Secretary, let me ask a couple of questions here. For my own information briefly, what is the thinking or the reason behind the sale of allotments?

Secretary FREEMAN. It is to, first, make it possible for a small farmer, particularly a young farmer, Senator Bass, who is unable to secure an adequate size operation, an adequate size allotment, to move toward an economically viable unit so he can make a decent living in farming and will stay in it.

Second, for people who want to do something else, people who want to work in town or even people who may want to leave altogether, it provides them with some return, some kind of payment for the allotment they have, which has a value, and this helps them in their transition.

Senator BASS. Let us take cotton acreage, we will say a 100-acre cotton allotment. What would this sell for?

Secretary FREEMAN. I do not know. I think it would depend upon the local area, it would depend upon the productivity of the land in the particular instance.

Senator BASS. Does anybody here have any idea? What would wheat sell for, a 100-acre allotment of wheat? What would it sell for if you wanted to buy an allotment?

Senator YOUNG. The sale price of a wheat allotment would depend a lot on the kind of wheat program you have. Right now it probably would not be very much because the program is voluntary.

Secretary FREEMAN. It would not apply very well.

Senator YOUNG. In years past they might have sold quite high.

Senator BASS. What would you call quite high?

Senator YOUNG. In some areas in North Dakota land sells for \$50 an acre, in other areas it will go to \$200 or more.

Senator BASS. I am talking about the allotment, not the land.

Senator YOUNG. I would say it would be roughly half the price of the land.

Senator BASS. This may be good to allow some people to go into production. But if we can do this, I think it would be cheaper for the Department of Agriculture to buy the allotment and retire it and get it out of production, if we are trying to get it out of production, than it would over a period of years to pay some man not to plant. If you are going to sell an allotment, why does the Agriculture Department not buy it, and if you need to put somebody else into business, if somebody needs to go in, why let him have an allotment. But you could buy the allotment cheaper than you could operate the program over a 5-year period. You would save money.

If a man wants to get rid of his allotment say, "All right, we will absorb it and put it in our own area."

Secretary FREEMAN. The Senator opens up another subject. The real purpose of this is not to retire land. We have got the CAP to try and do that. The purpose of this is to make it possible for a person with an inadequate sized unit now to get up to an adequate size so he can make a decent living in farming.

Now, when we talk about wanting to retire land, to cut down production, I personally feel that there is some merit in what Senator Bass is proposing.

Senator BASS. I think if a man is going to sell his allotment, if he is going out of production, he is going to sell his allotment, and in all of my career in the Congress it has been how are we going to decrease production. This has been the big problem. So if a man wants to sell his allotment, I think it is cheaper for us just to buy it and put him out of business and then if we have got some fellow that really wants to go into it and we can afford to put him into it, sell it to him. But to allow this business of transferring the cancer from one body to the other in my opinion is not going to solve anything.

Secretary FREEMAN. I would come back and say that this is not directed to retire production. This is directed to the economic adjustments.

Senator BASS. Mr. Secretary, this whole bill here is designed to retire production.

Secretary FREEMAN. Retiring production is not the whole purpose of the bill, Senator. It is a very significant part of it, I certainly agree. But we are trying to accomplish a basic adjustment in agriculture. We do not want to quit producing completely, of which I am sure you are keenly aware.

Senator BASS. No, we want to have profitable production.

Secretary FREEMAN. Yes, now you have put it.

Senator BASS. Low enough to prevent us from having to pay a great amount of surplus.

Secretary FREEMAN. One of the reasons I felt that this was useful is that almost invariably when I have gone out—and this is quite frequently—and opened up the meeting to questions, some young fellow stands up who is a pretty good operator, who cannot get an adequate allotment to have a decent size to operate. Now, in that instance, it seems to me that it is for the welfare of this country and agriculture that he should have it.

Senator BASS. I agree with you a hundred percent. I could not agree with you more. I think this is one of the problems that we have. One of the problems in agriculture today is the hobby farm, the man who owns a farm and does not live on it and does not make his living on it, and he continues to produce only for the purpose of maintaining the value of the farm.

There are many farmers today who would not produce tobacco. They would not produce wheat. They would not produce cotton were it not for the fact they want to hang on to the allotment to enhance the value of the farm. So I think that if we are going to have the sale of these allotments, to get the land out of production and transfer the land, why I think we can do pretty good and can save a lot of money by buying some of these allotments ourselves and getting them out of the way. Put them in our own bank.

Secretary FREEMAN. There is some merit in this.

Senator COOPER. Mr. Chairman.

The CHAIRMAN. Senator Cooper.

Senator COOPER. I would like to go back to the question I asked the Secretary earlier about this proposed transfer and sale of allotments. As I understand, you have said that one of its chief purposes is to enable young farmers or any farmers to have a viable farm, one that they can make a living on. But I worry about this proposal for these reasons:

I think it has been traditional and accepted since the beginning of commodity programs providing price support in exchange for production controls that the allotment "runs with the land," and that allotments are based upon the production history of each farm; they represent the fair share of the national quota allocated to each farm according to its production history buildup over a period of years.

Now I am afraid this proposal would simply turn the allotment over to the highest bidder in the marketplace. These allotments are valuable. They not only establish the income of the farm, but give it its capital value; they have great value. How would you prevent—how could you prevent the allotment from just going to the highest bidder? The highest bidder would be the man who has got the capital, who has got land to put it on and the modern, large-scale equipment to farm large acreages most efficiently.

I must wholly disagree with the idea advanced by my friend from Tennessee that the Department buy up these allotments and parcel them out. That would put the Government in the business of deciding who the producers shall be.

Senator BASS. I said put them in a bank and keep them there.

Senator COOPER. The Government would be selling licenses to produce. The Government would be deciding who should be a farmer.

I am wholly against that concept, and I do question whether or not this program would reach the result that you desire, Mr. Secretary. I think you would end up with a situation where the man who has got the money would be paying the highest price and accumulating or concentrating the allotments.

The CHAIRMAN. On the other hand, there has been a lot of complaint in the past few years of the farm families moving to big cities. I am wondering if the Secretary would tell us what effect it would have in shrinking the number of farmers in the country if the Congress were to permit the sale of these allotments.

Secretary FREEMAN. I do not think it would affect it too much. I think it would constitute——

The CHAIRMAN. But it would affect some. It would be bound to affect some.

Secretary FREEMAN. It would affect some, and it would mean that those who are leaving, and likely those are going to leave anyway, would have some stake, would have some resources to start out with. I at one time shared your concern, Senator Cooper, and it is a proper concern, I want to emphasize, but if we have the safeguard that we will not authorize the transfer of allotments to units over a reasonable size, so someone could not control all of it, it seems to me then that the free market will set the price of those allotments.

The person who is selling it, who by definition must want to go into something else and needs the money, is going to benefit from it. The person who is going to receive it wants it, or he would not pay anything for it. It is not going to increase production, because you are going to gear that allotment transfer to the difference between the productivity of the two areas in which it would be applied.

And so I feel under these circumstances that it would help finance people who have too small operations now and want out, and would help people who have too small operations and want it.

It would not increase production, and it would bring about economic adjustments that are in the national interest.

Senator JORDAN. Mr. Secretary, I imagine that you or anybody else would have more trouble under this bill trying to figure out what size farm it takes to make a good living on.

Secretary FREEMAN. Well, that will not be easy. That is right.

Senator JORDAN. Because you have got to check every farmer individually. Some of them make it under a shade tree, and that is a little hard to grow a crop under, or hard to get him out from under.

Senator BASS. Going back to what I said, to my statement about buying an allotment, we could take the money that we spent during my service in the Congress in supporting prices and retiring land on a temporary basis, and we could have bought every allotment in the United States, and we would not have overproduction, and you would have people going back into the business.

You start figuring it up, and I will bet you that you could have bought every allotment in the United States twice with what we have paid on retiring land, supporting prices, and paying storage costs in the past 11 years.

Senator COOPER. I am not talking about the cost. I am talking about the idea, the idea of distributing allotments to the highest bidders.

Senator BASS. It is a monopoly to start with.

Senator COOPER. My point is that the Government would decide who produces, on the basis of who could afford to bid in the allotments.

The CHAIRMAN. Let us proceed in order. We will reserve the debate on the Senate floor. It might be well if we proceed to obtain the facts here from the Secretary.

Senator BASS. Mr. Chairman, this was not a debate. It was just a profound statement, that is all.

The CHAIRMAN. Proceed.

Secretary FREEMAN. Let me close this discussion with this comment. Actually, Mr. Chairman, this would tend to keep some people on the farm. There could be very well some elderly couples who would not have to sell their land, who could sell their allotment and who could continue to live on their land and could stay in the country where they want to stay and not have to go to the city, which they would be forced to do if they had to sell the land and the allotment with it.

Senator MONDALE. Mr. Secretary, may I ask one question before we leave the transfer allotment?

In the second sentence of your testimony under transfer of allotments, you indicate that these transfers would probably take place only in the mandatory programs and not in the feed grain or wheat program. Would you explain why that would be the case?

Secretary FREEMAN. Because it would not be consistent for a man to sell his history or allotment to bring about a more efficient operation on the one hand, and then have the man in question go out and produce that same crop without being under the program.

Senator MONDALE. Under this proposed bill, could a feed grain farmer purchase the base-acreage allotment of another feed grain farmer?

Secretary FREEMAN. No.

Senator MONDALE. He could not.

Secretary FREEMAN. No.

Senator MONDALE. So that there would be no transfer allotments under feed grain.

Secretary FREEMAN. No; not under the voluntary programs.

Senator MONDALE. Nor under wheat.

Secretary FREEMAN. Nor under wheat.

The CHAIRMAN. One more question, Mr. Secretary. As I recall, in answer to a question by Senator Young you suggested in reply that he might not allow land to be put in CAP within 3 years after transferring allotment. But would you then permit transfer of the allotment after he went into CAP? In other words, how would this affect your CAP program?

Secretary FREEMAN. They could not go under the CAP program and get a payment on the one hand, and then turn around and sell the land on the other.

Senator YOUNG. But if they sold the allotment first, could they come under the land-retirement program at a later date?

The CHAIRMAN. That is right.

Secretary FREEMAN. Under the CAP, I believe we had the provision they had to have had the land for a period of 3 years.

Senator YOUNG. The land but not the allotment?

Secretary FREEMAN. Your question is whether they could sell the allotment on one farm and then put the farmland with the allotment under the CAP. Is that your question?

Senator YOUNG. No; that is another question. The question the chairman refers to is the one I raised earlier. Could a landowner sell his cotton allotment to a neighbor and then come along and put his land in the land-retirement program afterward? I do not think there is anything in this bill as it is drawn to prohibit this, is there?

Secretary FREEMAN. No; we made it quite clear that he would have to retire all of his history or allotment land before he could retire the remaining land. If he did not have any allotment, why, he would not come under the program.

Senator YOUNG. Suppose a farmer only had a quarter section of land, and he sells all his allotment to a neighbor. Could he not still come under the land-retirement program afterward?

Secretary FREEMAN. No.

Senator YOUNG. What would prohibit him from doing this?

Secretary FREEMAN. Well, because, as I say, this opens the question that Senator Holland opened here as to whether you ought to permit any land to come under the CAP that does not have an allotment of a crop that is in surplus on that producer's operation. It has been my intention, and I am going to reflect on this, that we would not apply the CAP program unless there was on that land, on that producer's operation, land that did have an allotment of a surplus crop.

Senator YOUNG. Suppose he sold nine-tenths of his allotment and retained the other one-tenth. He could still qualify for the land retirement program, could he not? These farmers are pretty smart in figuring out loopholes.

The CHAIRMAN. All farmers should be lawyers.

Let me ask you this. Suppose a farmer does sell his allotment which takes in half of his land. What would he be permitted to do on the land on which he sells his allotment?

Secretary FREEMAN. Anything.

The CHAIRMAN. Anything? Would he be permitted to do anything other than he could if he had kept the allotment himself?

Secretary Freeman. No. This would be exactly the status quo is what I meant to say.

The CHAIRMAN. I thought so.

Secretary FREEMAN. I did not answer the question very accurately.

The CHAIRMAN. All right, proceed.

Secretary FREEMAN. We have had experience in the transfer of tobacco and rice allotments, and this has been generally successful. Existing law provides for the lease and sale of tobacco allotments on an annual basis among farmers within the same county. Provision is also made for the transfer of rice allotments among experienced producers under certain conditions. With proper controls, such transfers have proved beneficial to farmers and to the economy.

The CHAIRMAN. These are made in a limited way, but don't you think it would make a vast difference if sold on a permanent basis without limitation of time? That is what it would mean.

Secretary FREEMAN. I don't think so, Mr. Chairman. I only say here that our experience in doing it in a limited way would indicate that it can be done in a permanent way, and if properly administered with good results.

The CHAIRMAN. Proceed.

Secretary FREEMAN. Allotments for other commodities may be transferred on a temporary basis through the release and reapportionment procedures, which provide no return to the farmer who is giving up an allotment and cause considerable administrative headaches to our ASC committees. Also permitted are limited upward adjustments in allotments for certain categories of farms, but these adjustments are usually at the expense of other farmers having allotments, and the results are seldom satisfactory.

The proposed new authority would be especially helpful to many families with low incomes. For example, in the case of a small-allotment cotton grower who goes out of cotton production, this would enable him to receive a monetary return in exchange for giving up an allotment in which he may have invested years of toil and sweat. The way it is now, he simply gives up his allotment through release and reapportionment, and gets nothing for it. Or it is lost to the county and State total allotment because of nonplanting.

On the other hand, it could be beneficial to young men who want to get into the farming business but are discouraged by the need to buy high priced and sometimes unneeded land. Sound procedures based on proper legal authority is the wisest way to meet the need for the transfer of allotments.

DAIRY PRODUCTS

Another subject not included in S. 1702 but which deserves attention in any survey of legislative needs is dairy products. Some progress has been made in improving the economic position of our dairy farmers—but it is not enough.

On the plus side, cash receipts of farmers from the sale of dairy products exceeded \$5 billion this past year—a rise of some 9 percent in 5 years. At the same time, we have been able to reduce the Government's program costs—from an expenditure of \$600 million as recently as 3 years ago to a level of about \$360 million this past marketing year. And Government stocks of dairy products have been reduced.

Nevertheless—and I view this as one of the most serious problems in agriculture—the net income of the dairy farmer is dreadfully low. Dairy farmers and their families are earning hourly wage rates that are not only far below the national minimum wage level but also are below those earned by farmers in any other kind of farming or livestock enterprise.

The CHAIRMAN. Mr. Secretary, what do you base this cost of the dairy program on, \$360 million, for the last marketing year? I have figures here to indicate that the entire cost for the fiscal year ending in 1964 of the dairy program was \$746.5 million, over three-quarters of a billion dollars. You didn't put everything in that figure I am sure.

Secretary FREEMAN. I was under the impression, Mr. Chairman, and I could be in error, that that figure includes everything including the school milk.

The CHAIRMAN. It ought to.

Secretary FREEMAN. Yes, it ought to include everything.

The CHAIRMAN. Certainly.

Secretary FREEMAN. And I think it does.

The CHAIRMAN. This is what I think you ought to reflect in your statement.

Secretary FREEMAN. This is what I thought I was reflecting. Pardon me, I am wrong on that. The \$360 million represents only net expenditures for price support and related programs during the 1963-64 marketing year. During fiscal 1964, net expenditures for these programs totaled \$355 million.

The CHAIRMAN. I have here—I don't know where you get that—for fiscal 1964 the price supports and related programs cost \$599.1 million, special school milk program cost \$99.8 million, Public Law 480 \$47.6 million, for a total of \$746.5 million.

Secretary FREEMAN. Those are different figures from what I have, and so maybe we had better get our experts to match figures.

The CHAIRMAN. I guess you had better do that. These figures of course were taken from published figures from the Department.

Secretary FREEMAN. You are referring to realized loss figures. I was using the expenditure figures.

The CHAIRMAN. Let's put the losses, because that is what counts.

Secretary FREEMAN. Of course the realized loss figures are not always representative of the cost or net outlays for acquiring the surplus milk production of a given year. They include the losses for actions taken in another year. For example, during fiscal year 1964, CCC realized losses were much higher than net expenditures during the same year because of large losses incurred on donations of daily products acquired in previous years.

(The information is as follows:)

Dairy products: Net expenditures¹ compared with realized loss and costs for activities directly involving dairy products, fiscal year 1964

[In millions of dollars]

	Net expenditures	Realized loss and costs
CCC price support and related programs.....	\$355.0	\$599.1
Public Law 480 (gross) ¹	47.6	47.6
Subtotal.....	402.6	646.7
Removal of surplus agricultural commodities (sec. 32) ²	4.4	4.4
Special milk program for children.....	97.1	97.1
Total.....	504.1	748.2

¹ Amounts shown for Public Law 480 represent gross cost, including ocean transportation—does not reflect recoveries from sales of foreign currencies under title I and collections under title IV. Such proceeds would reduce expenditures and costs.

² Amount shown for sec. 32 represents deliveries from CCC inventories during fiscal year 1964; dairy products valued at \$80,600,000 were delivered from CCC inventories during fiscal year 1965 to cover the balance of the \$85,000,000 advanced to CCC in fiscal year 1964 from sec. 32 funds. This amount—\$85,000,000—is shown under sec. 32 as 1964 obligations and expenditures by Consumer and Marketing Service.

The CHAIRMAN. As you know, Mr. Secretary, one of our problems is to try to do something to pacify the taxpayer. On many of these programs we have spent a good deal more money than was anticipated, and unless we can curtail the cost of these programs to some extent, some of these programs may sour on us and have a detrimental effect on the whole program.

Secretary FREEMAN. I quite agree, Mr. Chairman.

We have tried, and tried hard, to develop a comprehensive dairy program. We have worked with the dairy industry from producer to retailer; we have explored programs and legislative avenues of many kinds. Unfortunately, so far there has been little agreement

within the dairy industry. As a result, no proposals have yet commanded the support necessary to be enacted into law. I know that this is a problem for the committee as it is for the administration.

Nonetheless, positive steps can and should be taken to improve the economic position of the dairyman. I believe that enactment of legislation authorizing the use of base plans in Federal milk order markets, as proposed in S. 399 by the chairman, would be a step in the right direction. In markets where producers elected to adopt a base plan, as provided for in this bill, there would be an incentive to hold down increases in milk production. This would help reduce present surpluses to the benefit of all.

S. 399 would not impose barriers on the entry of new producers to markets adopting a base plan. Its provisions would leave the door open for needed, yet equitable adjustments within the industry.

We should pursue other ideas as well, giving careful consideration to the dairy proposals in various pending bills. These include dairy consumption incentive payments, authority to buy dairy products at above the support level for program uses, and a marketing agreement for manufacturing milk. We are studying such proposals with a view to submitting recommendations at a later date.

COTTON

Although changes in the cotton program are not proposed in the bill we are considering today, this is a subject of interest to the committee, and I know that its members share my concern about cotton problems. We have been operating for over a year under the cotton law which eliminated the old two-price system that had been in effect since 1956. There have been some favorable and some unfavorable developments.

Domestic consumption is up about 800,000 bales over last season. Farmers did well in 1964—producing 15 million bales on fewer than 14 million harvested acres. The farm value of production continued at a high level—a little under \$2.3 billion, including domestic allotment payments but not cottonseed.

The trend in stocks and costs is not so encouraging. During this season, carryover stock will increase by 1.4 million bales.

The CHAIRMAN. At this point, isn't it a fact that when the administration proposed the bill last year we were told that it would reduce the surplus by 1,750,000 bales?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And then the cost of it was somewhat exaggerated this year. I can well recall that the administration stated that the program would cost in the neighborhood of \$438 million. But instead it cost around \$900 million.

Then there was another statement made by the retired Secretary of Commerce, Mr. Hodges, who said that the consumers of cotton goods would benefit to the extent of \$600 to \$700 million, if I remember the figure, but instead the price of commodities went up. That I expect to go into later on unless the Secretary has something to add to that statement now.

Senator JORDAN. Mr. Chairman.

The CHAIRMAN. Let him answer.

Secretary FREEMAN. No.

The CHAIRMAN. You don't have anything else?

Secretary FREEMAN. What the chairman has said is correct.

The CHAIRMAN. Thank you.

Senator JORDAN. Let me point out one thing to you, and I think the Secretary will agree to this. Had you not had the one-price cotton system, you would probably have had another million and a half in storage this year.

The CHAIRMAN. No.

Senator JORDAN. I am sure of it. I know it.

The CHAIRMAN. No.

Senator JORDAN. They used 800,000 bales more.

The CHAIRMAN. It was estimated that mills were to use 1,100,000 more and under the program that I submitted, the utilization would have amounted to about 600,000 bales more as I remember the figure.

Senator JORDAN. But you were supposed to use say 1,100,000 or whatever figure you want to use there. The production did go up 800,000 bales above the year before, isn't that correct, Mr. Secretary?

Secretary FREEMAN. Yes, sir.

Senator JORDAN. It went up 800,000 bales.

The CHAIRMAN. It would have gone up 600,000 under the bill I submitted.

Senator JORDAN. How do you know?

The CHAIRMAN. Well, the estimates were that as presented by the Department.

Senator JORDAN. Well, I doubt it very seriously.

The CHAIRMAN. Well, all right, the Department estimated that the consumption would be 1,100,000 more under present law. That is what you said on the Senate floor. And it turned out to be only 800,000. We won't argue that. -I would rather get the facts out, and we can argue the matter on the Senate floor. Proceed, Mr. Secretary.

Senator JORDAN. There is a great and vast difference in the two understandings of this thing.

The CHAIRMAN. Yes.

Senator RUSSELL. May I ask a question?

The CHAIRMAN. Yes, Senator.

Senator RUSSELL. As I understand it, Mr. Secretary, while the domestic consumption of cotton went up 800,000 bales, there was a loss in exports.

Secretary FREEMAN. Yes, sir.

Senator RUSSELL. What was the amount of the loss, and do you know what the reason was?

Secretary FREEMAN. It was a million bales roughly, I think, from 5.7 million to the Department's estimate is 4.5 million bales. The reason was because of extremely favorable production generally around the world, and, I think, the period in the cotton cycle. There is a rapidly growing production of cotton by other nations.

We do frankly make a forecast that if nothing is done in the foreseeable future, there will be virtually no more export market for American cotton, and this is a very grave danger because worldwide production is climbing faster than worldwide consumption, where cotton is concerned.

If we remain in the position of a residual supplier in connection with cotton, why down the road here we can see the day when we are not going to have any export markets to speak of in cotton.

Senator JORDAN. There is also a possibility, I believe, Mr. Secretary, that if we can come a little nearer in line with the worldwide market of cotton, that we could export a good deal more. But there is another factor that entered into that too. The foreign buyers were not exactly certain what we were going to do here, so they ran their own inventories down pretty low, and they didn't go out and buy a lot of cotton.

Secretary FREEMAN. There are a lot of factors, but I still will say that we face grave problems in connection with maintaining our exports of cotton, and if we don't do something about it, why we will, within a decade probably, not have any cotton exports.

The CHAIRMAN. Proceed.

Secretary FREEMAN. The trend in stocks and costs is not so encouraging. During this season, carryover stocks will increase by 1.4 million bales. Exports will be down to about 4.5 million bales, compared with 5.7 million last year. The cost of the program to the Government on an expenditure basis will reach nearly \$900 million for the fiscal year 1965, although \$150 million of this amount cannot fairly be attributed to the programs for the 1964-65 marketing year which began last August 1. These costs included various payments attributable to programs in effect before that date plus advance payments made this spring to producers signing up to reduce 1965 cotton acreages under the domestic allotment program.

The overwhelming majority of cotton experts believe that U.S. cotton must be fully competitive in domestic and export markets. With this in mind, President Johnson said in his farm message that:

The cotton program of 1964 should be extended and improved. It is essential that cotton be competitive with other fibers and in world markets. At the same time, we must adopt measures to reduce the cost of this program and the level of stocks.

A basic improvement which I hope this committee and the Congress will give strong consideration to, is to free the Government of the responsibility of buying and selling cotton. This is a task we do not want, and one we cannot perform as effectively as the open market.

It becomes especially important in the current crisis, for the old axiom "export or die" is particularly true in the case of cotton. Historically we have exported one bale in three. With rising yields and growing competition, increasing attention must be given to the foreign market.

After 4 years of experience, I am convinced the best way—as a practical matter—to maximize American cotton exports is to move cotton through the private trade freely at world prices. We can best accomplish this through a low loan rate—near the world price—that would permit cotton to move freely into export. Grower income could be supplemented by direct payment in cash or in kind or by diversion payments.

We look hopefully to this committee, the industry * * * growers and their organizations * * * for agreement on a program which will increase cotton exports, strengthen farm income, reduce surplus stocks, and bring Government costs down to the administration's goal of

around a half billion dollars. We stand ready to work with you toward that end.

Senator BASS. Mr. Secretary, couldn't you have gotten some music to play with that last paragraph?

Secretary FREEMAN. Well, I tried to be as melodious as I could. Why do you have to be so critical of my voice?

Senator BASS. The tones are beautiful, but if we had had some musical background on that——

Secretary FREEMAN. I just need some help, that is all. As long as that is a rough one, let's talk to the next one. That is rough too.

CCC RESALE PRICE

CCC sales policy: At this point, may I comment on the proposals to increase the Commodity Credit Corporation's minimum price for sales of grain stocks on the open market. A number of bills before the Congress would raise the minimum from 105 percent of the loan rate to other levels as high as 125 percent—plus reasonable carrying charges in each case.

One of the stated objectives of these proposals is to make maximum use of market forces in guiding production. I agree with this objective. The market can set values and quality differentials far better than the Government. I believe in the Government staying out of the marketplace as much as possible. Yet if we are to have commodity programs there will be situations where some participation by the Government will be necessary.

In the past 4 years, by reducing wheat supplies by 500 million bushels and feed grain supplies by nearly 30 million tons—and at the same time gradually increasing farmer prices—the policies of this administration have strengthened the marketplace and enabled the private trade to handle the production and flow of grains. The programs of the 1950's would have put the Government further into the grain business, instead of reversing that trend.

The CCC's minimum sales price of 105 percent of price support, plus reasonable carrying charges, has worked well as part of the overall policy of strengthening market prices while reducing supplies. Under this policy, we have been able to bring production below consumption, raise farm prices, and stabilize the livestock economy. On the other hand, a higher minimum sales price would threaten destruction of the grain programs that have worked so well.

I have already documented the success of the wheat and feed grain programs in reducing stocks. There is no basis of fact in charges that the sales policy of the CCC has reduced farmer prices. During most of the 1950's, the market price of corn averaged below the loan level—from 6 to above 20 cents.

In 1961 and 1962, the market price remained below the loan levels, and the CCC sold a good deal of corn at the marketplace. This was done to protect participants in the program and to maintain feed price stability for livestock producers. Loan rates had to be higher than now because grower returns were not supplemented by price-support payments as they are now. I would emphasize that that sales policy—

in 1961 and 1962—was clearly outlined by the Secretary to the Congress before the first feed grain program became law. In any case, this is now history. The program has changed and the sales policy has also changed.

Under the current type of program with price-support payments and a lower loan rate, market prices have moved above the loan level. We have been operating under the program in its present form for 2 years, and in both years prices have averaged above loan levels. And in all of the last 4 years, average farm prices for corn (including loans) have been 8 to 14 cents a bushel above the 1960 level. And for the 1964 crop, the season average price received by farmers to date is higher than for any crop during the past 7 years, 1957–63 inclusive. So it can hardly be said that the CCC sales policy has not succeeded. Why then tamper with success?

We have analyzed each of the bills that have been introduced to increase the minimum CCC sales price. We are convinced that to apply any of these bills would destroy the feed grain program within 1 or 2 years and weaken the wheat program severely. Such a policy would reduce participation and increase cost. Moreover, it would have an adverse effect on the bright picture of growing grain exports.

The Department has the responsibility for operating the feed grain and wheat programs as effectively as possible for the producer at a minimum cost to the taxpayer. To hold stocks off the market at a price so far above price-support levels would defeat these objectives and seriously jeopardize the programs themselves.

Also, in the case of feed grains, the revised sales policy would likely have a seriously disruptive effect on the livestock economy. One of our objectives in administering this program has been stability in the livestock sector. The success of this policy is reflected in the rapidity with which the livestock industry has snapped back after its serious price declines of a year ago.

To introduce more grain price uncertainty into the business of the dairyman, the poultryman, and the feeder would be poor service indeed to those who have had so much to do with raising the standard of living in this country and who have recently experienced some difficult times of their own.

Nothing raises havoc in any business so much as wide fluctuations in the cost of raw materials. Under the proposals that have been introduced to raise the CCC sales minimum, prices of grains would swing within a wide range—fluctuating as much as 40 cents a bushel during the course of any 1 year. This would seriously disrupt the dairy, livestock, and poultry industries.

If Congress should apply an increase in the CCC minimum price only to wheat, it would upset the relationship between wheat and feed grains in livestock and poultry feeding. The wheat and feed grain programs are designed so that the farm price of wheat will be competitive with feed grains. Even a very small differential could make wheat noncompetitive with fed grains. This, in turn, would destroy the interchangeable feature important to many farmers, particularly those in the West.

The objectives sought by the sponsors of the bills to escalate CCC sales prices have largely been achieved. The grain programs have been administered to provide higher farm prices and at the same time to make the maximum use of the marketplace in the management of stocks. We have had a period of unparalleled stability in which prices have risen gradually and benefited everyone. By extending the programs by means of the legislation we are considering today, I believe that we can make even greater use of the market and of the facilities of the grain trade.

This concludes my testimony on S. 1702. Thank you for your courtesy in listening to my presentation. I would be pleased to answer to the best of my ability any further questions you may have.

The CHAIRMAN. Mr. Secretary, as I stated to you yesterday, I am sure that many of the members of this committee would like to study over the presentation you have made, and in the light of the examination we have also made, and at some future time, after we hear all of the witnesses, outside witnesses, we will recall you.

Secretary FREEMAN. Very good, sir.

The CHAIRMAN. This is so that the Senators may be a little sharper in their questioning on the program that you are proposing.

Secretary FREEMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Any further questions?

COTTON

Senator JORDAN. May I make just one observation to the Secretary? You know I should have said yesterday when I had this pretty girl up here from North Carolina, the Secretary has got a pretty one down there too. He has got one of our girls out of Winston-Salem. He might not have known that.

I just want you to keep in mind, and I am sure you do have it in mind, that the future of the textile business largely depends on the cotton program. I say this, and the facts prove it, that one-price cotton must remain in effect. I don't care how you get it.

Now I know that your losses will be less this next year anyway, because you have dropped your loan by a cent. A cent a pound is a lot of money in millions of bales of cotton. It runs into a lot of money. You are going to have to compete with your foreign markets unquestionably.

You are not going to get many new export markets unless there is not enough cotton to go around at a cheaper price. They are not going to pay the United States more money for it. That is very evident.

But the cotton that is produced in a great many cotton-producing States is of as much value to the farmers and to the country as to the dairy industry, the wheat industry, and a great many others. It is all a part of the economy of the United States. We have got to somehow or other keep a one-price cotton system. The United States can't compete with a 5- or 6-cent differential in cotton abroad, because imports will put you out of business here. There is a very limited

restriction put on imports coming into the United States. It is very limited.

Now one of the things that has hurt cotton this year, and it will keep on doing it, is the increased production of synthetic fibers. They are cheaper. I won't admit they are better, but a lot of people think they are, and they buy it. And it all enters into the price structure.

But for the chairman's benefit, the textile mills have raised wages three times since this bill went into effect, which has more than offset the difference in the price of cotton, and a lot of other things have gone up too which have affected the cost.

But the week that the price of cotton dropped to the mills, the same reduction was made right over the counter to the mills producing cotton textiles. They took about a \$125 million drop in inventory in 1 day that they didn't get back.

Senator BASS. Mr. Chairman.

The CHAIRMAN. Senator Bass.

Senator BASS. I notice in referring to this last paragraph you didn't come in with the cotton program, and you made no recommendations on dairy, that is, specific legislation. I would hope that before we report any farm bill, Mr. Chairman and Mr. Secretary, that these other programs can be presented to the committee and wrapped up in one bill, because it is my experience in trying to get agricultural legislation through when we go out piecemeal, one commodity at a time, we are going to run into the same old business that the cotton boys can't support the feed grains and the feed grains can't support the cotton and the dairies at one end of it, and if we don't have an omnibus farm bill with an entire package to go on the Senate floor with, I can look to a great deal of possibilities of not getting the kind of programs that we want to carry out the intention of your recommendation. So I would hope that—when do you expect to have the recommendation on the cotton program?

The CHAIRMAN. He did in here.

Senator JORDAN. No.

The CHAIRMAN. He gave his recommendations here.

Senator BASS. His recommendations amounted, Mr. Chairman, to—

The CHAIRMAN. He insists on one price to all, and here, as I pointed out in debate last year, 96 percent of the textile production in this country is sold to the best market in the world. They don't have to compete with the people abroad.

As I argued, the encroachment by manmade fiber was just as impressive abroad or maybe more so than it was in this country. There is no doubt about that.

Since the textile industry has this good domestic market, it would seem to me that the program that we had in effect before 1964 should continue, and let the textile mills absorb a part of the cost between world prices and support prices.

Senator BASS. In other words, you are recommending an extension then of the present program?

The CHAIRMAN. Yes; that is right. I have got a bill in.

Senator JORDAN. No; he is not.

Senator RUSSELL. He is opposed to the one-price cotton bill.

The CHAIRMAN. Oh, yes. I would not extend the mill subsidy we had in 1964 and 1965. I would let that end.

Senator RUSSELL. As I gather from the Secretary's statement that he in general does endorse this, though the specific language is not before us at this time.

The CHAIRMAN. I presume that——

Senator JORDAN. You recommend a one-price cotton in this bill here. However you get it doesn't make a bit of difference to the textile business in my opinion, but you just want one-price cotton.

Secretary FREEMAN. May I say that cotton is just a little complicated. They are all complicated, but cotton is a little more complicated.

Senator JORDAN. I know it is.

Senator YOUNG. Mr. Chairman, I understand that Secretary Freeman will be back with us later to answer additional questions.

The CHAIRMAN. Yes. I thought it was best to do that, because many of us will probably desire to look over his statement in the light of what other witnesses will say, and he is going to present to us a lot of figures, and we would like to look over those figures and reexamine him after we conclude with the outside witnesses.

CCC RESALE PRICE

Senator YOUNG. I think the last subject covered by the Secretary, the CCC sales policy, is probably the hottest issue in my part of the country right now. The Farm Bureau advocates increasing the CCC resale price for both feed grains and wheat to 125 percent of price support, I believe. The Farmers Union Grain Terminal Association favors an increase to at least 115 percent. Personally, I doubt if a higher resale price would work on feed grains, certainly not 125 percent.

In the case of wheat, I do believe that something higher than 105 percent might be helpful in permitting the free market to operate a little better. I say this just with reference to wheat. I wouldn't go to the 125 percent level, but I know there are times, and I think you will agree, that if the CCC resale price of wheat, for example, was higher than 105 percent of the support price plus carrying charges, that the cash price would be higher. That was particularly true last year when you changed over from the old program to the present certificate plan.

Secretary FREEMAN. Well, you know, it is very unfair to make any reference to the transition period in the wheat program. For the same people—which would include people from the Grain Terminal Association—who strongly advocated support of the wheat program, to turn around (and they were a part of the arrangement of the transi-

tion when there was no new wheat available) and contend that this is an example of why we should have a higher resale value is grossly unfair. It is more than that. It is deceptive and deceiving.

Senator YOUNG. How do you figure, Mr. Secretary, that this 105 percent resale level is a magic figure. How do you know that it should be no higher and no lower? Certainly when this was first put in the law years ago, someone must have figured out some magic formula for it to be so perfect today.

Secretary FREEMAN. I expect nothing is perfect, and I don't like to be dogmatic at any time, Senator Young. But when I said why tamper with success, I meant exactly that.

I think that on this level, while we have been extremely careful, and may I say with some little pride I think extraordinarily successful in the management of enormous grain stocks that we inherited. I will take a minimum of credit for that because it has been people who manage this on a day-to-day basis under my general supervision.

And there has been the longest period of stability in both wheat and feed grains and we have steadily moved the price up for each of them. In feed grain we have special problems because of the referendum with which you are familiar.

Now to disrupt this relationship between them on the substitution principle would seriously threaten both of these programs. And some of the people who are advocating this and say they are for the programs are misled.

Some of the people who are advocating this are advocating it because it would destroy the programs. That is what the Farm Bureau wants. They want to destroy these programs, and that is why they are for it.

Senator YOUNG. You don't mean to say though that the cash price of wheat has moved up in recent years?

Secretary FREEMAN. It sure has in relation to the loan, and the loan where it is and the program where it is is a result, as you well know, of the wheat referendum with the resulting consequence and the effort in which you played a key part to get a program which would provide a rescue enterprise.

Senator YOUNG. Mr. Secretary, I think that if you will check the record you will find that cash wheat is selling no higher above the loan rate now than it has during the average of the past 20 years.

Secretary FREEMAN. I don't think that is correct, Senator Young. But anyway this is one that may I say, as I said before, that I feel very strongly about, and I think we would make a grave mistake to disturb this one.

(Information submitted for the record is as follows:)

Beginning with 1938 marketing year—prices received by farmers for wheat were above or below the loan rate as follows:

	<i>Dollars per bushel</i>
Year beginning July 1:	
1938-42: Average-----	-0.01
1943-47: Average-----	+.23
1948-52: Average-----	-.05
1953-57: Average-----	-.10
1958-62: Average-----	-.02
1963-----	+.03
1964 (preliminary)-----	+.08

The CHAIRMAN. Is Mr. Heinkel present? Mr. Heinkel, could you be here at 1:45?

Mr. HEINKEL. Yes, sir.

The CHAIRMAN. We will take you at that time.

The committee will stand in recess until 1:45.

(Whereupon, at 12:15 p.m., the committee recessed, to reconvene at 1:45 p.m. on the same day.)

(Information on farm program costs requested for the record is as follows:)

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, COMMODITY CREDIT CORPORATION

SCHEDULE 9.—Realized loss (or gain*) and CCC costs, Oct. 17, 1933, through June 30, 1964

REALIZED LOSS OR GAIN* ON COMMODITY OPERATIONS

Commodity or item	Realized loss or gain* on price support and related programs ¹					
	Price support	Commodity export	Total, price support and commodity export	Supply and foreign purchase	Emergency feed	Other ²
Feed grains:						
Corn (and products)	\$2, 865, 711, 758	\$31, 770, 420	\$2, 897, 482, 178		\$165, 210, 084	
Grain sorghum	813, 674, 029	20, 573, 932	834, 247, 961		49, 185, 761	
Barley	194, 088, 235	24, 083, 051	218, 171, 286		6, 364, 407	
Oats (and products)	94, 519, 870	7, 833, 981	102, 353, 851		20, 423, 332	
Rye (and products)	22, 805, 891	4, 374, 730	27, 180, 621			
Total, feed grains	3, 990, 799, 783	88, 636, 114	4, 079, 435, 897		241, 183, 584	
Wheat (and products)	2, 089, 714, 316	709, 963, 176	2, 799, 677, 492		3, 539, 053	
Rice	228, 129, 085	127, 674, 454	355, 803, 539			
Tobacco	43, 665, 959		43, 665, 959			
Cotton:						
Extra-long staple	7, 494, 162		7, 494, 162			
Upland	1, 273, 391, 336	844, 633, 226	2, 118, 024, 562			
Dairy products:						
Butter (and products)	1, 208, 425, 880	6, 975, 979	1, 215, 401, 859			
Cheese	570, 989, 377		570, 989, 377			
Milk	1, 579, 561, 516	36, 307, 640	1, 615, 869, 156			
Whey	3, 584, 209		3, 584, 209			
Total, dairy products	3, 362, 560, 982	43, 283, 619	3, 405, 844, 601			
Oils and oilseeds:						
Soybeans (and products)	26, 606, 577	12, 285	26, 618, 862			
Peanuts (and products)	266, 410, 022		266, 410, 022			
Cottonseed (and products)	118, 116, 846		118, 116, 846			
Flaxseed and linseed oil	172, 468, 809		172, 468, 809			
Olive oil	578, 132		578, 132			
Tung oil	4, 733, 851		4, 733, 851			
Castor beans	171, 193		171, 193			
Total, oils and oilseeds	589, 085, 430	12, 285	589, 097, 715			
Honey	897, 154		897, 154			
Naval stores	*1, 000, 595		*1, 000, 595			
Beans, dry edible	111, 729, 808		111, 729, 808			

Peas, dry edible	824, 436			824, 436			824, 436
Seeds	38, 717, 268			38, 717, 268			38, 717, 268
Hops	954, 200			954, 200			954, 200
Pecans	3, 751			3, 751			3, 751
Wool	115, 963, 017			115, 963, 017			115, 963, 017
Flax fiber	397, 113			397, 113			397, 113
Hemp and fiber	21, 459, 155			21, 459, 155			21, 459, 155
Eggs	189, 698, 695			189, 698, 695			189, 698, 695
Turkeys	*11, 070			*11, 070			*11, 070
Potatoes	478, 582, 600			478, 582, 600			478, 582, 600
Sweetpotatoes	135, 421			135, 421			135, 421
Sugar	*23, 830			*23, 830			*83, 561
Sugarbeets	16, 517, 269			16, 517, 269			16, 517, 269
Commodities not separately identified:							
Mixed feeds						60, 675	
Grains and seeds							
Vegetable oil products	74, 839, 204	20, 676, 302		95, 515, 506	*75, 955, 243		*75, 955, 243
Bulk oils					*39, 889, 316		95, 515, 506
Processed and packaged commodities					*39, 219, 365		*39, 889, 316
Poultry products		42, 851		42, 851			*39, 219, 365
Vegetables, canned	*11, 942			*11, 942			42, 851
Fruits:							*11, 942
Dried	14, 882, 320			14, 882, 320			14, 882, 320
Fresh							
Canned	1, 732, 374	4, 171		1, 736, 545			1, 736, 545
Meat (and products)		6, 530		6, 530			6, 530
Foodstuffs							
General commodities purchase					*5, 706, 276		*5, 706, 276
Strategic and critical materials	7, 410, 826			7, 410, 826	*202, 045, 452		*202, 045, 452
Offshore procurement premiums	457, 891			457, 891			7, 410, 826
Other	*1, 329			*1, 329			457, 891
Ocean transportation on sec. 416 donations					3, 576, 113		3, 574, 784
Total, commodity operations	12, 658, 994 789	1, 834, 932, 728		14, 493, 927, 517	*371, 839, 288	262, 210, 826	344, 271, 679
							14, 728, 570, 734

See footnotes at end of table, p. 193.

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See footnotes at end of table, p. 193.

OTHER COSTS AND LOSSES

Commodity or item	Realized loss (or gain*) on price support and related programs ¹						
	Price support	Commodity export	Total, price support and commodity export	Supply and foreign purchase	Emergency feed	Other ²	Total
Storage facilities.....						\$12,883,984	\$12,883,984
Production cost research.....							
Accounts and notes receivable.....						15,366,301	15,366,301
Interest:							
Expense.....							
Income.....							
Net.....						3,662,817,596	3,662,817,596
Operating expenses (net).....						*677,136,415	*677,136,415
Direct payments:							
Cotton.....						2,985,681,181	2,985,681,181
Feed grains.....						764,720,910	764,720,910
Wheat.....							
	7 \$382,409,240		\$382,409,240			⁶ 62,609,966	62,609,966
	7 79,169,092		79,169,092			⁸ 2,459,529,993	2,841,939,233
						⁸ 448,379,518	527,548,610
Total.....	461,578,332		461,578,332			2,970,519,477	3,432,097,809
Eradication of diseases of animals and poultry and brucellosis.....							
Cost of wartime consumer subsidy program.....						2,102,281,073	2,102,281,073
Total, other costs and losses.....	461,578,332		461,578,332			8,851,452,926	9,313,031,258
Grand total.....	13,120,573,121	\$1,834,932,728	14,955,505,849	*\$371,839,288	\$262,210,826	9,195,724,605	24,041,601,992

Commodity or item	Cost of programs operated under specific statutory authority for separate reimbursement						
	Public Law 480				International Wheat Agreement	Other ⁴	Total
	Title I	Title II	Title IV ³	Total			
Storage facilities							
Production cost research							
Accounts and notes receivable							
Interest:							
Expense	\$246,569,556	\$19,698,854	\$3,356,451	\$269,624,861	\$29,485,420	\$1,039,877	\$12,883,984
Income							1,039,877
							15,366,301
Net							
Operating expenses (net)	246,569,556	19,698,854	3,356,451	269,624,861	29,485,420	31,680,115	3,993,607,992
					177,503	26,577,042	*677,136,415
Direct payments:							
Cotton							
Feed grains							
Wheat							
Total							62,609,966
Eradication of diseases of animals and poultry and brucellosis							2,841,939,233
Cost of wartime consumer subsidy program							527,548,610
Total							3,432,097,809
Eradication of diseases of animals and poultry and brucellosis						218,803,520	218,803,520
Cost of wartime consumer subsidy program							2,102,281,073
Total, other costs and losses	246,569,556	19,698,854	3,356,451	269,624,861	29,662,923	278,100,554	9,890,419,596
Grand total	12,255,075,116	1,504,541,469	174,459,740	13,934,076,325	1,462,692,560	2,323,220,135	41,761,591,012

¹ Programs for which the realized net loss or cost is reimbursed to CCC by appropriations in accordance with Public Law 87-155, approved Aug. 17, 1961.

² Includes the special milk program for children and other items which are individually identified.

³ Includes credit sales to foreign governments which will be subject to separate reimbursement only in the event of default by such governments.

⁴ Includes the following activities: Transfer of wheat to the Government of Pakistan (Public Law 77, 83d Cong.); emergency famine relief to friendly peoples (Public Law 216, 83d Cong.); transfer of hay and pasture seed (Public Law 524, 83d Cong); cotton classing and tobacco grading (various annual USDA appropriation acts); CCC grain made available for wildlife pursuant to Public Laws 654, 84th Cong., and 87-152); animal disease eradication activities (CCC Charter Act, Public Law 806, 80th Cong.; and various

annual USDA appropriation acts); bartered materials for supplemental stockpile (Agricultural Act of 1956); special milk program for children (act of July 1, 1958, as amended); National Wool Act (title VII, Agricultural Act of 1954); and costs for research conducted by Agricultural Research Service authorized by Public Law 88-250.

⁶ Represents cotton equalization program payments.

⁷ Represents price-support payments on 1963 crops.

⁸ Represents acreage diversion payments.

⁹ Represents gross cost without giving effect to proceeds from sale of Mexican canned meat which were used to reduce amounts for which appropriations were requested.

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.
Mr. Heinkel, you may proceed, sir.

**STATEMENT OF FRED V. HEINKEL, PRESIDENT, MISSOURI
FARMERS ASSOCIATION, COLUMBIA, MO.**

Mr. HEINKEL. Mr. Chairman and members of the committee, my name is Fred V. Heinkel, and I am president of the Missouri Farmers Association with headquarters at Columbia, Mo. The membership of this association is over 150,000.

It is a privilege for me to have this opportunity to appear before you here today in general support of the provisions of Senate bill 1702. I am familiar with the general consensus of opinion of our members in Missouri, and also have had occasion only recently to hear a forthright expression of opinions of farm leaders from all over the United States.

I refer, Mr. Chairman, to a meeting which was held at the President Hotel in Kansas City, Mo., on April 13 of this year. This meeting was called by me, and invitations went to over 300 people. There was broad representation from the farm organizations and also from commodity groups.

Furthermore, this was not just a Midwest meeting. Registration indicated there were in attendance people from Minnesota to Texas and from California to New York and most of the States in between. They represented wheat, corn, grain sorghum, rice, wool, cotton, milk, soybeans, and livestock. It was indeed gratifying that 280 persons registered at the meeting out of an invitation list of 310.

Another fact needs to be recognized: Although the Secretary of Agriculture and members of his staff appeared on this program, they were there at my invitation and were neither the sponsors nor the promoters of this meeting.

You may ask my authority for calling such a meeting, and I shall be glad to explain that.

Some 3 years ago, at the insistence of a number of farm leaders in various sections of the United States, I was asked to call a similar meeting at St. Louis, Mo. To be exact, this meeting was held on January 31, 1962. President Kennedy had just the day before sent the administration's farm proposal to Congress. There was a unanimity of opinion at this meeting, and the Congress in its judgment enacted the Agricultural Act of 1962. At the conclusion of this meeting a motion was passed which stated in effect that this group would not be considered a formal organization, but instructed me to call another such meeting at any time I deemed it desirable and necessary. This, Mr. Chairman, is the authority by which I called the meeting held in Kansas City.

Senator YOUNG. If I might interrupt, Mr. Heinkel. This must have been truly a bipartisan affair, because you invited me to attend. I am awfully sorry I was not able to make it.

Mr. HEINKEL. Yes, sir—we did not draw any political distinction. Sorry you could not be there.

Very briefly let me report to you that the meeting in Kansas City was successful. We approached the subject of future agricultural legislation on a broad plane and a high level. Spokesmen for virtually every commodity indicated their support for the basic proposals of the administration's program for agriculture. There was no disunity.

After much discussion, the following resolution was unanimously adopted by those in attendance:

This meeting has assembled, from California to New York and Texas to Minnesota, the producers of all major food and fiber commodities, their commodity organizations and all national farm organizations.

The expiration at the end of this crop year of the legislation on the books prompts us to the unanimous declaration that the farm programs must be extended, strengthened, and improved.

Since the beginnings of the farm programs 40 years ago, we have heard much talk about the need for parity and equality for the farmer. For the first time, we see and we are heartened by the administration's proposal, in specific legislative form, of a program which will provide a means of obtaining 100 percent of parity.

This bill will provide a basis for assuring that our agricultural commodities are fully competitive in world markets, within the terms of our international agreements.

This group endorses the direction and approach embodied in the Food and Agricultural Act of 1965. We hope that other commodities and other legislative needs will be taken into account by the Congress as the bill is deliberated and moves through the legislative process. To this end we pledge our strong support and urge the Congress to act favorably and promptly.

Mr. Chairman, I apologize for taking so much of your time and that of the committee on preliminary remarks. However, I wanted you to know that this is not just my statement and my views, but the views of the majority of the MFA members as well as a broad representation of producers in all sections of the United States.

WHEAT

Now, to some of the specifics contained in Senate bill 1702: We in the MFA believe that the provisions contained in title I relating to wheat are very desirable, especially since the present program expires with the 1965 crop. Without new legislation we will revert to old legislation which requires a referendum by August 1, 1965, which will require a vote for or against marketing quotas for the 1966 crop.

Farmers were faced with this dilemma in 1963, and even though they disapproved, the Congress in its wisdom passed voluntary legislation not only for the benefit of wheat producers but to prevent the economic disaster that would have occurred if wheat prices had fallen to between \$1 and \$1.25 per bushel.

The CHAIRMAN. Well, Mr. Heinkel, do you think that the program that was turned down by the farmers 2 years ago has been successful?

Mr. HEINKEL. I didn't get that. The program that was turned down?

The CHAIRMAN. Yes. They voted it down, and then the Congress made it voluntary.

Mr. HEINKEL. Yes. Yes, I think it has succeeded reasonably.

The CHAIRMAN. What makes you believe that the farmers would not vote for it now, if it has been successful?

Mr. HEINKEL. Well, whether they would vote for it in the necessary numbers to carry it is a puzzling question—whether we can get 66 $\frac{2}{3}$ percent is a serious question.

Senator YOUNG. I might say, Mr. Chairman, the compulsory wheat program that was disapproved in the referendum would have provided a higher level of income for wheat producers. I think one of the major reasons why it probably would be disapproved again however, is that it brings the 15-acre growers under controls for the first time and gives them a vote for the first time.

I think that, so far as my area is concerned, the vote favoring the compulsory program now would be much higher. I think now perhaps as many as 85 percent of the farmers would vote for it. My mail indicates this, and everyone I talk with indicates this. But I still do not believe you could get a two-thirds vote throughout the Nation.

Mr. HEINKEL. That's what I am afraid of.

Senator YOUNG. If that one portion of the bill could be repealed and the 15-acre people left out of the program putting them on the same basis they were before, then there might be a chance.

Mr. HEINKEL. I agree, sir.

The CHAIRMAN. Proceed.

Mr. HEINKEL. We strongly support the use of certificates of sufficient value to raise the price level of wheat used for domestic consumption to 100 percent of parity. The price, of course, would be based on a loan rate keyed to competitive world prices and the feeding value of wheat plus a domestic certificate. It is estimated that this will increase producer returns by at least \$150 million and at the same time substantially reduce export subsidy costs. In addition to maintaining farm income with the present voluntary program, we have made real progress in the reduction of the overall supply. This is a start in the right direction, and we believe the program should be continued.

The CHAIRMAN. Before you go on, Mr. Heinkel, you don't fear an overproduction on a voluntary basis?

Mr. HEINKEL. No. That's the thinking of the people with whom I have visited.

The CHAIRMAN. Do many of the large farmers that you know of remain out of the program?

Mr. HEINKEL. Well, I would have to say that I do not have many facts on that question.

The CHAIRMAN. Proceed.

FEED GRAINS

Mr. HEINKEL. With regard to title II, feed grains, we believe that the provisions of this section will provide for the continuation of a successful program and will serve to insure that farmers will continue to receive a reasonable return from their production.

It was my privilege to serve on the original Feed Grains Study Committee, and it was our objective under the first emergency program in 1961 to improve farm income and reduce feed grain supplies. It gives me great satisfaction to point out to you today that at the end of the 1964-65 marketing year the corn supply will be the smallest

that it has been since 1955. In fact, total feed grains carryover has been reduced from an all-time high of 85 million tons in 1961 to about 56 million tons in 1964, and it is estimated that there will be a further reduction in the 1965 marketing year to approximately 50 million tons which is approaching the point that well-informed people believe to be near the level considered necessary as a safe reserve.

The CHAIRMAN. Mr. Heinkel—do you know that it costs the taxpayers \$6 a bushel to make the reduction you have just talked about?

Mr. HEINKEL. Well, I have not computed it on that basis.

The CHAIRMAN. Well, that's it. That is in the record. In other words, in order to reduce it from 85 million tons in 1961 to 56 million tons in 1964, it cost the taxpayers \$5.4 billion.

Senator MONDALE. Mr. Chairman—

Mr. HEINKEL. Could I comment.

Senator MONDALE. Go ahead.

Mr. HEINKEL. My comment would be, Senator, that we were in a terrible mess out across the country.

The CHAIRMAN. But you are not in a terrible mess now, and you want to continue the same program that has been so expensive. You take the program of today—it is estimated the program will cost \$1.4 billion today. My criticism of this is that if we keep on these expensive programs, the whole farm program may go out of the window.

Mr. HEINKEL. Well, I do not think, Senator, we want to get back in the same mess that we were in. Certainly if we reverted to the type of program that had been in effect, we would soon get there.

The CHAIRMAN. But the corn people have gotten the benefit of all price supports without paying any penalties on production. It is my strong belief that any farmer—I don't care who he is, no matter what he grows—if he expects the Government to pay him or support the price of the commodity he produces, he ought to be willing to produce within the needs of the Government, or of our country.

You have an acreage allocation in practically all basic commodities. Why corn won't accept it is something I have never been able to understand, except that the corn people are a little more powerful than the rest.

Mr. HEINKEL. I don't hardly think that is the case. They are spread over a greater area of the country probably than any other. And I would say this: Feed grains are basic to hog production, they are basic to cattle, beef production, they are basic to dairy production, they are basic to poultry production. And those items that I have just mentioned are basic in our high protein American diet in this country. And so I think we are talking about commodities here that are of tremendous significance to the whole welfare of this country.

Senator MONDALE. Mr. Heinkel—if I may, Mr. Chairman.

The CHAIRMAN. Yes, sir; surely.

Senator MONDALE. In 1961 you stated feed grain stocks in Government hands totaled an alltime high of 85 million tons. If it had not been for the feed grain program, would the surplus in Government hands have risen, in your opinion?

Mr. HEINKEL. If we had continued under the program that we were operating under prior to 1961, I think it is just a certain fact that they would probably be 100 million, 125 million tons today instead of 56 million.

Senator MONDALE. So when we calculate the savings to the Government by way of reduced stocks, it might be more accurate to compare the present stocks of 56 million tons with what the projected stocks would have been absent the program, rather than the 85 million with 56 million.

Mr. HEINKEL. I think that is right. On that basis, we have saved some \$2 or \$2.5 million storage fees.

The CHAIRMAN. How much?

Mr. HEINKEL. At least \$2 million—\$2 billion, I mean.

The CHAIRMAN. You mean during that 4 years?

Mr. HEINKEL. Yes; had we been operating under the previous program.

The CHAIRMAN. I understand. But still it is cheaper than what we are paying now.

Mr. HEINKEL. Yes. But in the meantime the farmers would have gone broke on the basis of advice from the bankers I have talked to and other lending people—they tell me that the farmer reached the end of his rope, and they were not willing to extend him any further credit.

The CHAIRMAN. I have no quarrel with assisting the corn people at all. But in the past that program has always been different to that of any other producer of any of our basic commodities, in that they did not have to have acreage control, they did not have to pay marketing penalties, or anything like that like anybody else.

Mr. HEINKEL. And they do not plant any other crops on those acres, either, Senator.

The CHAIRMAN. Yes; they do.

Mr. HEINKEL. Oh, a few little insignificant crops.

The CHAIRMAN. No. They plant soybeans, they plant all sorts of crops. They are not limited in that at all, sir.

Mr. HEINKEL. Soybeans is not permitted under the present programs.

The CHAIRMAN. That is on diverted acres, I know that. But you are paid not to plant. That is why. In other words, you let your land go idle, and you get a certain percentage of what your normal production would be. That is done for nobody else. Cotton doesn't get it, rice doesn't get it, tobacco doesn't get it, peanuts doesn't get it. And corn, as I have often said, have been the little blue-eyed girl of the farm program. She got all she desired without paying the penalties that others did.

Mr. HEINKEL. And still the little blue-eyed girl does not cost as much per acre as does the wheat or the cotton program.

The CHAIRMAN. Well, that is because you have so many engaged in it; that's the reason.

Mr. HEINKEL. No; I am talking about per acre. I am not talking about per farm.

The CHAIRMAN. I understand. But the thing is you have got so many more engaged in it, and, of course, that has a tendency of decreasing, spreading the cost to more people.

Mr. HEINKEL. Well, that is, of course, your analysis to which you are entitled. But I would say as far as I am concerned—and I am a taxpayer, too—that I think that this is a real good investment to the people of the United States—this corn program.

The CHAIRMAN. Well, my fear is, I repeat, that if we continue such expensive programs, then it is going to do harm to the other programs, all programs, because we are not in the same position today as we were when I first came to Washington. Then you had what you call the farm bloc.

Mr. HEINKEL. I appreciate that.

The CHAIRMAN. But today you have a lot more city people who are representing—who are represented in the lower House. And believe me, we had a lot of trouble last year to put a bill through.

Mr. HEINKEL. I appreciate that.

The CHAIRMAN. And mark what is going to happen this year if these costs keep on rising.

Mr. HEINKEL. And these city people like good food products at a reasonable price. I do not know of any better assurance that they can have them with this kind of program.

The CHAIRMAN. Well, you are going to have to convince them of that.

Mr. HEINKEL. Well, I think we can convince some of them.

The CHAIRMAN. Proceed.

Mr. HEINKEL. Farmers have signed up to divert more land from feed grains this year than last. The success of this program has been demonstrated. It is estimated that with the rising yields, had the program in effect immediately prior to the 1961 program continued, by this year the carryover would be in the vicinity of 125 million tons, instead of the estimated 50 million. Continuation of the previous program would have meant financial disaster to hundreds of thousands of farmers as well as a staggering storage bill to the Government.

Speaking of cost, some critics have expounded at length on this subject. I do not deny that it has been a costly program, but I do want to point out that the cost per farm and per acre in the feed grains program has been modest in relation to costs of various other programs. Furthermore, the feed grains program from 1961 to 1964 has increased farm income by nearly \$3 billion. In addition to the increased income to farmers, there has been a savings to taxpayers, by eliminating carrying and storage charges, estimated at approximately \$2½ billion. May I reiterate that two-thirds of all U.S. farmers are feed grains producers, and further point out that livestock producers have benefited as well. Therefore, it is entirely appropriate to evaluate feed grains program costs against the combined value of livestock and feed grains production. Analyzed in this perspective, the cost has indeed been modest for the great benefit derived.

The fact that as of today feed grains prices are about 7 percent higher than they were a year ago and livestock prices are substantially improved, speaks eloquently for the feed grains program and indicates the desirability of its continuation. As to the details of the proposed feed grains program under Senate bill 1702, we concur in principle except that we are opposed to a proposal which would authorize the Secretary of Agriculture to allow production of soybeans on diverted acres. The 1965–66 soybean supply is in close balance with expected disappearance for the year. The law of supply and demand is working quite well with respect to this commodity.

We feel that Secretary Freeman would exercise good judgment in the utilization of this provision, but farmers generally are unfavorable to this feature of the bill.

As to title III, rice, Missouri is not a primary rice-producing State. However, from the information available to us, including the successful operation of the wheat program under the certificate plan, we could only assume that such a program would be equally as effective and beneficial for rice.

WOOL

With respect to title IV, wool, we support the principles contained in this title. Woolgrowers have benefited materially through the existing program; and it certainly should be continued. Although we are well aware that graduated payments as proposed are controversial, we do feel that the family-size farm producer should be given recognition in proportion to larger benefits.

This brings up a subject that I wish to dwell on briefly, Mr. Chairman. History shows that from ancient times up until the present, in every country where landownership and control has become vested in the hands of a few, such a situation has worked to the disadvantage of that country's economy. Any devices that we can use to guard against this hazard will be helpful to the Nation as a whole.

CROPLAND ADJUSTMENT

Under title V, cropland adjustment, we believe it is imperative that a long-term cropland adjustment program be made available to farmers who wish to retire and, under certain other circumstances, those who wish to live on the farm and be gainfully employed elsewhere. This can be an effective program. However, there must be a limitation on the percentage of land in a given area to be so utilized in order to avoid total disruption of the local economy.

TRANSFER OF ALLOTMENTS

Under title VI, transfer of allotments, there is considerable apprehension among our membership as to the desirability of this provision. There is a prevailing fear among family farmers that large landowners might "gobble up" basic allotments and stimulate a trend toward corporate farms. If this provision is adopted, we would insist that certain safeguards be incorporated to be sure that this does not happen.

Listening to the testimony of the Secretary this morning, I would say that the program that he has in mind I think would do this. But farmers are apprehensive, and I wanted to express that feeling.

The CHAIRMAN. Well, you would not object to the limitations that some of us suggested?

Mr. HEINKEL. No.

The CHAIRMAN. Because as I recall most of what the Secretary of Agriculture stated he would do was administratively, and no safeguards, as I see it, written in the law. If you have any specific language that you could submit before these hearings close it would be appreciated by the committee in order to do what you suggest. I am in full agreement with you.

Mr. HEINKEL. If we can think up any, we will send it to you.

The CHAIRMAN. All right.

COTTON

Mr. HEINKEL. We are concerned that no mention is made of cotton in the proposed legislation. Cotton is grown in only seven counties in Missouri, but even so, it is the State's second largest cash crop. In spite of the great divergence of opinion on what would constitute effective cotton legislation, we feel that an assured future of both cotton and cotton producers requires that a cotton program be developed as part of this overall farm bill. It seems to us that a long-term continuation of the general provisions of the present cotton program, with appropriate modifications, would be a start in the right direction for cotton legislation.

Now, this is based upon information I received from our cotton people in Missouri.

I do want to say, however, that our main concern is that cotton be included in an omnibus farm bill, and we think it is up to the cotton people to reach some unanimity of opinion and agreement on what ought to be in that bill.

The CHAIRMAN. That cannot be done. I have tried it. But we cannot get them together. I do not know what is going to happen.

I put in a bill to more or less reenact the old law and have a provision in there to assist small farmers—small farmers—in addition to the support price fixed, where they would receive a bonus by way of payment in kind. What the bill we had last year does, of course, is to pay the difference between the world price and the support price for the benefit of the textile mills. That, I think, was a mistake. That's where the trouble comes from now. That is why they cannot get together.

I believe that it would be possible to propose some kind of legislation whereby the mills would be not compensated directly, but would be able to buy cotton a little cheaper than the present support price. I hope we can work something out along that line.

But as I have stated oftentimes, the textile mills sell 96 percent of their output to the best market in the world—that is the American people. And for us to have given them this subsidy that amounted to about \$325 million, when they utilized only 300,000 or 400,000 bales of cotton more than they otherwise would, I think was very expensive. That is why there is quite a bit of opposition, in my opinion, to the reenactment of last year's bill as written—I mean to reenact the bill now on the statute books.

Senator YOUNG. Mr. Chairman, I have to leave and go to another meeting.

Mr. Heinkel, I always appreciate hearing you testify before this committee and I will read the rest of your statement in the record. There is no man in the United States that I have a greater respect for as a farm leader. I have always respected your judgment and sensible approach to all farm matters.

Mr. HEINKEL. Thank you, Senator, for those kind statements. I wish you could stay.

Again, let me say that our chief concern is we think there must be cotton legislation and it should be in this omnibus bill.

We are optimistic enough——

The CHAIRMAN. Did you consult with the cotton growers of south-east Missouri?

Mr. HEINKEL. Yes, we have visited with them.

The CHAIRMAN. Well, what did they think of the present law?

Mr. HEINKEL. Well, they seem to be reasonably favorable to it.

The CHAIRMAN. You mean they want to extend it as is?

Mr. HEINKEL. I would not say "Just as is."

The CHAIRMAN. I notice you said "with appropriate modifications." I wish you would be more specific, if you can.

Mr. HEINKEL. Well, I did not have those.

The CHAIRMAN. That is of no help to us in the committee.

Mr. HEINKEL. I am sure they will be here to convey their sentiments, Senator. We will depend on them. I was a little optimistic that the cotton people could all get together. There was a time when we could not get the corn farmers, the feed grain farmers, and the wheat farmers in the same room together, but we have accomplished that and they have joint meetings, and very harmonious meetings.

DAIRY PRODUCTS

Dairy legislation, too, is conspicuous by its absence. The members of the Missouri Farmers Association, thousands of whom are dairy-men, urge the inclusion of dairy legislation in this farm bill. Some progress is being made in improving the economic position of our dairy farmers, but not enough. We favor the continuation of the present price-support program and urge legislation providing for a class I base plan for use by all producers of fluid market milk.

We think this would tend to lessen the cost of the present price-support program.

The CHAIRMAN. In other words, what you mean by that is that those who produce for direct consumption should receive a fair price for that milk, and the support price for any milk produced in addition to that?

Mr. HEINKEL. Well, as I understand it now in these market pools under the market orders maybe 80 percent of what the farmer supplies to that market, assuming he supplies a hundred thousand pounds—probably 80,000 pounds of it is class 1. The rest of it is surplus. He could reduce his total output without losing his proportionate share of that class 1 market, and thereby we may accomplish some reduction.

The CHAIRMAN. Yes. In other words, you do not favor the blend price which would be—which would mean the price of the milk for direct consumption added to the support price, and add that together, average it, and you get the blend price.

Mr. HEINKEL. Well, we favor this class 1 use plan.

The CHAIRMAN. Well, that is what we intended when the law was enacted back in 1937. I was here. We have some milksheds that are producing only 39 percent for direct consumption and the rest of it goes for manufacturing purposes. They get the blend price instead of the price support of 75 to 90 percent of parity. I think that's the

trouble there, and that is why this program is costing so much, and the farmers are not receiving what they should.

Mr. HEINKEL. We urge the continuation and expansion of the PIK program which would assure the continued removal from the market of price-depressing stocks of Government-stored dairy products. We further urge adoption of a program aimed at developing long-term markets for U.S. dairy products in world trade.

We recommend and urge the inclusion of a provision in S. 1702 that will make it possible for dairy farmers who are producing manufacturing milk to choose by referendum to apply the same marketing order techniques of classified use that are now available for fluid milk.

Again, we think this could be helpful in reducing the cost of the dairy program.

GENERAL

In conclusion, I appear here in general support of the proposals as contained in S. 1702, with the exceptions I have indicated. We believe it imperative that agricultural legislation be enacted in this session of Congress if the family farm is to survive.

Incidentally, one item that I left out and forgot to put in the statement is that our people think that the legislation should be for 4 years instead of 2. They feel that legislation covering a greater number of years than 1 or 2 is imperative for good, sound planning.

Obviously, the history of the nations of the world and current events indicate conclusively that the one sure source of a constant, dependable and adequate food supply in peace or war is the family farm.

Contrariwise, it is also obvious that the combination of landless farmers and ownership of farmlands in too few hands provides a fertile breeding ground for frustration, unrest, turmoil and war—Vietnam being a notable example.

Landless farmers or tenants have little to which to look forward unless there be hope and a real opportunity to acquire ownership of land.

The enactment of an expanded S. 1702 is imperative if farmers are to retain ownership or have the opportunity of acquiring ownership.

By expanded S. 1702 I have reference to the inclusion of cotton and dairy legislation.

Passage of this pending legislation will strengthen the income of farmers and will continue the reduction of surplus grain stocks, as well as continue to provide the American people with an abundance of food and fiber at reasonable prices. It will also reduce the cost of farm commodity programs, and in the end enable agriculture to compete more effectively in world markets.

The economy of the Nation in large measure rides with the welfare of the farmer. Without a healthy agriculture and adequate income, farmers cannot continue their high volume of purchases of goods and services. And this is vital to all business from "Main Street" in the county seat town to the great industrial metropolis.

Thank you very much for extending to me the courtesy to appear before this committee. I urge your prompt, favorable action.

DAIRY PRODUCTS

The CHAIRMAN. Mr. Heinkel, can you be a little more specific as to what you mean by the language at the bottom of page 9 of your statement in which you say:

We recommend and urge the inclusion of a provision in S. 1702 that will make it possible for dairy farmers who are producing manufacturing milk to choose by referendum to apply the same marketing order techniques of classified use that are now available for fluid milk.

Mr. HEINKEL. Well, it simply means extending that right and privilege to the producers of manufacturing milk, which some people seem to think the law is not broad enough to cover now, and there are some who think it is.

So it is felt that the law should be clarified by amending it to authorize the use of marketing orders and classified use for manufacturing milk.

As an illustration, milk that is used for butter production might carry one price, whereas milk used for ice cream production or powder may carry another price. It is felt that by this method, some increase in income, modest increase in income, could be obtained for farmers and at the same time we may take some of this surplus off of the Government's back.

The CHAIRMAN. Well, the way that we envision the operation of the milk program was that all of the milk produced in a milkshed, the farmers would—through an order from the Secretary of Agriculture—sell the fluid milk for direct consumption at a minimum price that would be set, and if there was a little more—I think the allowance was 5 to 6 percent—anyway, a percentage more, just to have enough to supply the demand—that amount, of course, they could sell it at a low price—to ice cream people.

But the idea was to give a fair price to the producers of milk for direct consumption. I think it is your belief, as I understand, that as to those farmers, they ought to receive a fair price and those who produce for manufacturing purposes should come within the purview of the price support, between 75 and 90 percent of parity. Is that right? Is that what you mean?

Mr. HEINKEL. Well, I mean a little more than that. I think they ought to have the privileges of these marketing order provisions that fluid milk people have.

The CHAIRMAN. What advantage would that be to them?

Mr. HEINKEL. Well, I think by classifying the use—the different uses of manufacturing milk—it is the opinion of some people that I work with that are versed in dairy marketing, they think that it would be to the advantage of these producers of manufacturing milk and consequently to all dairy farmers, because this manufacturing milk is the base upon which the premiums ride for the fluid milk people. So they think that any gain that might be made by classified use of manufacturing milk, as I indicated a moment ago, Senator, probably a lower price for milk that is used in butter production than milk that is used for ice cream or powder may get us a little advantage income-wise to the farmer, and it may be able to keep some of this surplus out of the Government's hands.

The CHAIRMAN. Well, what would you want to do with the milk producers who are not within a milkshed—how would you treat them?

Mr. HEINKEL. Well, they would be in the same position they are now, Senator.

The CHAIRMAN. That is, they would get the price support of 75 to 90 percent.

Now, this language here that we have just read refers to farmers who produce milk within the milkshed and does not pertain to—

Mr. HEINKEL. Not necessarily, no. Not this on the bottom of page 9.

The CHAIRMAN. Well, how would you impose milk orders on farmers who are not within the milkshed?

Mr. HEINKEL. Let them have the privilege of adopting orders that would cover their area. It may cover a market area, it may cover a State, it may cover several States—whatever they choose—and the Secretary agrees to set up as an area.

Senator AIKEN. What do you think of the idea of requiring each dairy farmer to cast his own vote on establishing bases, instead of permitting the co-ops to vote en bloc? That, I believe, is a requirement in the House bill.

Mr. HEINKEL. Well, that on the face of it appears to permit a greater degree of democracy. But on the other hand they are members of this cooperative and they own and control it. The present method of voting has seemed to work quite satisfactorily—at least in our area.

Senator AIKEN. It seems to me it is a first step toward the elimination of marketing orders.

Mr. HEINKEL. I think so, sir.

Senator AIKEN. And we cannot afford to do that. My section cannot afford to do that. Probably 95 percent of the milk is marketed through order areas, and I believe it is about 8 percent in Minnesota. I never could understand why Minnesota did not take to marketing orders.

Senator MONDALE. We are a surplus-producing area.

Senator AIKEN. Now, the people who are recommending the base quota plan unfortunately—maybe I should not suspect—are the ones who are getting the Chicago market order eliminated. That might be all right for one order area. But when you get them all eliminated or when you get a lot of them eliminated, then you're in trouble.

Another thing—I might as well tell you what disturbs our people at home. All the manufacturing milk we produce, virtually every bit of it, is produced under the same sanitary standards which are required for class I milk, for fluid milk use. But, in areas where there is production for manufacturing purposes only they do not have to meet those standards and can naturally produce at a much lower cost. Our high-cost manufacturing milk comes into competition with the low-cost milk, and we get the short end of it. If everyone had the same sanitary standards and requirements for all milk, it would not bother us if the order was nationwide; I don't think it would, anyway.

Another thing the House bill permits class I producers to sell their bases, and I can see, in our area at least, a few people would soon be running the milk business. They would offer whatever they had to get bases enough to get control, and then things would go their way.

As it is now, one of the biggest troubles in the dairy business in this country is that four or five big so-called dairy corporations pretty much control the market for everything except butter and cheese, not only here but over much of the world. If they get in some difficulties shipping orders out of a Minnesota plant, they can ship out of their Canadian or their Holland or Denmark plant. I know one company must have 60 plants scattered in almost every country in the world.

I think that is our trouble. And I don't know how to meet it.

They have merged, they have bought, they have acquired. It is true of every other business, too, and it does present a problem.

I have been working on this, as you have, for the last 30 years and have never been satisfied. And I am not satisfied now.

Mr. HEINKEL. I believe the Secretary indicated this morning that he plans to submit something more specific on this very item.

The CHAIRMAN. He did. I have a bill that he commented on this morning.

Mr. HEINKEL. We shall submit any specifics that we have, and I think our people do have some very definite ideas—to either the Secretary or to you.

Senator AIKEN. The different dairy interests will want to come in here and testify. They will come in here and disagree, as they always have done. That is why the Secretary is almost ready to wash his hands of the whole thing.

But I do not think this is much of a time for farmers to disagree. We have got a little more trouble than that. We are being taken over. The agricultural areas of the country are in danger of being placed under urban control.

Mr. HEINKEL. I would say that in the Dairy Advisory Committee they did have enough agreement on this particular provision referred to at the bottom of page 9 that we recommended it to the Department for serious consideration, and that was quite a step forward, I would say.

Senator AIKEN. Off the record.

(Discussion off the record.)

The CHAIRMAN. Any further questions?

CCC RESALE PRICE

Senator MONDALE. Mr. Chairman, there has been considerable discussion about the problem of the CCC release price, particularly as it relates to wheat. I notice you do not mention that problem in your testimony. Did you mean to imply that your organization favors the administration position?

Mr. HEINKEL. Very largely, yes. There are some of our people that would be willing to see the released price on wheat go to 110 percent. They are very well satisfied with the 105 percent, carrying charges on corn. I do not think they regard it as a tremendously important important matter whether wheat is changed or not. That is the reason I did not mention it.

Senator MONDALE. What does your organization feel about the Uniform Milk Sanitation Act?

Mr. HEINKEL. I could not say, I am too familiar with that act, so I could not speak to that.

FEED GRAINS

Senator MONDALE. Do you find some of your feed grain farmers, even though they are satisfied with the feed grain program, express interest in perhaps a slight improvement in the price-support payment? I notice the National Farmers Union, which wholeheartedly supports the feed grain program, would like to see us work toward 100 percent of parity.

Mr. HEINKEL. No. I think our farmers would be inclined to favor raising the loan rate rather than the price-support payment.

Senator MONDALE. If you raise the price-support payment, don't you improve the percentage for compliance at the same time you improve the income to the complier?

Mr. HEINKEL. Yes. I don't mean we oppose it. It does get greater compliance and you keep this grain from going into storage and that holds down costs.

Senator MONDALE. You don't seem to have much pressure from membership in either direction.

Mr. HEINKEL. No, they are quite satisfied with these figures.

The CHAIRMAN. Mr. Heinkel, could you tell us what percentage of your membership grows corn for the market, to sell it, and not feed it to livestock?

Mr. HEINKEL. Just to grow it for the market, there probably would not be over 20 percent.

The CHAIRMAN. Any further questions?

All right. Mr. Kimball.

STATEMENT OF THOMAS L. KIMBALL, EXECUTIVE DIRECTOR, NATIONAL WILDLIFE FEDERATION

Mr. KIMBALL. Mr. Chairman, I am Thomas L. Kimball, executive director of the National Wildlife Federation, which has headquarters here in Washington, D.C. The federation is a private organization which seeks to attain conservation goals through educational means. Affiliates of the federation are located in most States. These affiliates, in turn, are made up of individuals who, when combined with associate members and other supporters of the National Wildlife Federation, number an estimated 2 million persons.

I welcome the invitation to appear here today and to comment briefly on S. 1702, the proposed Food and Agriculture Act of 1965.

CROPLAND ADJUSTMENT

Our principal interest is with title V, "Cropland Adjustment," of the proposed act. However, we do hope the feed grains program will be continued and, for the record, I would like to attach a resolution adopted during our annual convention here in March of this year.

(The resolution referred to follows:)

RESOLUTION No. 18 OF NATIONAL WILDLIFE FEDERATION 29TH ANNUAL CONVENTION,
WASHINGTON, D.C.

IMPROVED COVER CROPS IN DIVERTED ACRES

Whereas fertile soils produce crops, including wildlife, which are essential to the well-being of the American people; and

Whereas millions of acres of agricultural land are being retired from production annually under the Federal feed grain program; and

Whereas in many areas the land retired from agricultural production under this program lacks ground cover of the quality needed to enrich the soil and protect it from erosion; and

Whereas improved ground cover on diverted acres would serve a dual purpose by enriching and protecting the soil while, at the same time, improving habitat for pheasants, rabbits, Hungarian partridges, quail, and other species of wildlife; and

Whereas good quality nesting cover is the primary need of pheasants in the intensively farmed regions of the Midwest; and

Whereas a steady decline in acreages devoted to small grains and other grassy types of cover has resulted in reduced pheasant hatching success and fewer numbers of pheasants; and

Whereas legumes highly attractive to wildlife also provide excellent perennial ground cover for enriching and protecting the soil: Now, therefore, be it

Resolved, That the National Wildlife Federation, in annual convention assembled March 7, 1965, in Washington, D.C., hereby registers its firm convictions in these principles:

1. That a voluntary land retirement program based upon 2- to 4-year contracts would provide the greatest benefits to both agriculture and wildlife, and the tax-paying public, in terms of investment at no greater costs; and,

2. That the U.S. Department of Agriculture and the State ASC committees be authorized and directed to set out regulations, after consultation with State wildlife authorities, which would require (a) seeding of small grains, legumes, or grasses early enough in the spring and of such quantity as to be of cover value to nesting wildlife; (b) permit control of noxious weeds when the need occurs; and (c) clipping of retired acres be permitted only after the time when broods of young wildlife are of a sufficient age to leave their nests and survive.

Mr. KIMBALL. Mr. Chairman, our organization long has supported the basic premise that land held out of agricultural production by Federal programs should be maintained in conservation practices or devoted to uses of public benefit. We supported the concept of the conservation reserve program, and believe these retired lands, in the main, are significant contributions to populations of farm and forest wildlife and, to a more limited extent, to fisheries. We feel that title V of the proposed Food and Agriculture Act of 1965 also carries out these principles and we are hopeful that the committee will give serious consideration to procedures offering the maximum in public benefits.

All of us realize that farmers can—and many do—offer much for outdoor recreation. Depending to a considerable extent on geographic location and other environmental factors, farms and ranches provide excellent hunting, especially for small game birds and animals. Private properties also offer significant opportunities for big game and waterfowl hunting. In addition, many farms and ranches have ponds or lakes and streams, or accesses to them, of value for public fishing and other water-oriented recreations, and some have wooded areas or other sites suitable for picnicking, camping, etc.

Commercial enterprises such as shooting preserves, dude ranches or guest farms, and fishing lakes offer important outdoor recreational

opportunities for a clientele which thus far is somewhat limited in number. Most farmers, however, do not want to engage in these full-scale operations yet they have resources of high recreational value. It is about this bona fide farmer or ranch operator that the main part of these remarks are concerned.

As we understand the proposed cropland adjustment program, Mr. Chairman, under section 107 of the Soil Bank Act, as amended, farmers would be offered contracts for establishing—

practices or uses which will establish, protect, and conserve open spaces, natural beauty, wildlife and recreational resources, and prevent air and water pollution.

Cost-sharing practices of benefit to fish and wildlife, of course, are authorized in other phases of the agricultural program. Now, we wish to recommend two other points for consideration of the committee: first, we hope the Department of Agriculture will be authorized to enter into contracts with farmers for additional cash incentives if they open their lands to public recreational uses; and, second, we hope the Department also will be authorized to enter into cooperative arrangements with official State conservation and/or wildlife agencies for help in administering the program.

I might add here, Mr. Chairman, that we made similar proposals to the Subcommittee on Conservation and Credit of the House Committee on Agriculture and they have been incorporated into an approved committee print. This will soon be considered by the full committee.

Of course these recommendations require additional explanation.

First, I would like to make a personal observation based on many contacts in the natural resources field. While most American taxpayers may fully appreciate the economics involved in the dilemma of overproduction, they and most farmers find something distasteful in offering money to keep land idle. This pill is much more palatable if unneeded acres are diverted into beneficial uses which do not complicate problems of surplus production. While we possibly could be accused of bias, conservationists cannot think of uses of these unneeded lands which would be of greater public interest and value than for hunting, fishing, and recreation. Agriculturists could point to these public benefits with honest pride.

I now should like to set out a few ideas relative to implementation of such a program.

Since this is a voluntary program, the farmer must be willing to participate. Some farmers, of course, simply do not want the bother of having people on their lands and no financial incentives would interest them. And, it should be made clear here that some hunters and fishermen and recreationists are poor guests when permitted on a farmer's land although we have ample statistics to prove that most vandalism and unsportsmanship behavior is caused by a small minority. Therefore, the farmer likely would want a guarantee of some protection from vandals. He also likely would want freedom from liability from those who use his property.

The CHAIRMAN. How would you accomplish what you have just suggested?

Mr. KIMBALL. We have developed a simple liability law, a uniform liability law, which could be enacted by a State legislature, absolving the landowner of any responsibility for guests on his land when

they are recreating. And this has been enacted, I think, in many States.

The CHAIRMAN. Is that some kind of insurance?

Mr. KIMBALL. Well, no. It is just a law absolving the landowner of liability on recreating on their lands. I don't think it has anything to do with insurance. But there are a number of States who have now enacted this law.

Senator MONDALE. Is this where a hunter would go on the land and injure somebody while he is there?

Mr. KIMBALL. No, it is if he injured himself.

Senator MONDALE. He might fall in a hole in the field and try to sue the family?

Mr. KIMBALL. That's right—or any action could happen on the man's land—he could be sued for anything. This could be eliminated by this type of approach.

The CHAIRMAN. Proceed.

Mr. KIMBALL. Other points merit consideration. It would not be reasonable or desirable, in our opinion, for USDA to offer financial incentives to all farmers participating in the cropland adjustment program. Many landowners do not have land and/or water and wildlife resources suitable for public use. Many farmers already open their lands to public uses under existing programs. Some might place only small portions of their farms in the cropland adjustment program but would be willing to open larger areas to public recreational purposes. Means would have to be developed to inform the public of the availability of property for use under certain conditions, probably through signs or listings in publications. Probably it would be necessary to develop a "hunter quota" procedure—allowing only a maximum number of persons to use an area for a certain period. Finally, USDA must have assurances that farmers actually open their properties to the public under accepted procedures when the incentives are paid.

In our opinion, Mr. Chairman, these details highlight the need for local administration of the program. They also demonstrate why we recommend that USDA be authorized to cooperate with State governmental wildlife agencies for administrative services.

While this need not be spelled out in S. 1702, we suggest that representatives of State wildlife agencies confer with county ASC committees to decide jointly which farmers are able to provide desirable public hunting, fishing, and/or recreational opportunities. These same groups then could determine what would constitute fair incentive payments for opening their lands in accord with USDA guidelines. These persons could make the necessary contacts. The State wildlife agencies then would develop plans for policing public use and checking on terms of agreement on those lands placed in the program.

Mr. Chairman, we know such a program has merit. Representing a significant segment of the citizens who would utilize these resources, we are vitally interested and will help USDA in publicizing and coordinating the program.

The International Association of Game, Fish & Conservation Commissioners, an organization representing the official agencies of State government dealing with wildlife, also is in agreement with this gen-

eral philosophy and I think representatives will appear as later witnesses to speak for themselves in this connection.

We are sure that the committee is aware of action in the House side to develop a proposed new title I: Cropland Adjustment. We call the committee's particular attention to subsections (c), (h), (i), and (j) of subtitle B, section 102, of the House committee print of June 10, 1965, which are attached. This is action taken by the Conservation and Credit Subcommittee.

In conclusion, we hope the committee will give favorable consideration to these concepts as work progresses on S. 1702. Thank you for the opportunity of presenting this proposal and making these comments.

The CHAIRMAN. Well, Mr. Kimball, you suggested making these incentives available to a farmer for, let's say, providing for hunting or fishing—that he be forced to take people on?

Mr. KIMBALL. No; as we envision the program, it would be patterned much after what is already in operation in New York State. Near the city of New York, where recreation is at a premium, the program is entirely voluntary to begin with. The farmer himself makes a determination as to whether or not he wants to consider it. We would determine how many individuals would be permitted on his property, and it can conceivably go further and say that he be permitted to determine which individuals would go on his property.

The CHAIRMAN. In other words, that would be a condition of the grant.

Mr. KIMBALL. But it would require him, the farmer, if it was agreed with the local committee that he should permit, let's say, four people to hunt on his farm, that he permit four people to hunt on his farm as a condition of the incentive payment.

The CHAIRMAN. Well, I presume that if a farmer should desire to obtain from the Government the incentive payments, the reason for it would be that he could get revenue from it. But you want to write in a condition that he should take so many people to hunt and fish.

Mr. KIMBALL. This would be determined on a contact between the local committee and the farmer himself, so that he would not be overburdened with too many.

You see, this is one of the reasons a good many farmers don't want to permit, let's say, public use of their farm—is that adjacent to areas of urban population there would just be too many, they would just overrun his entire farm. So he does not want to bother with it. But if there was a limitation on numbers, then he might consider it.

Senator AIKEN. May I ask one question?

Would it be to the advantage of your people to have large areas of farmland, rural land, be called suburban and put under the administration of the Housing and Home Finance Agency, including the utilization of the land and water conservation fund?

Mr. KIMBALL. I really don't think so.

Senator AIKEN. I think that is something that we have to face very soon.

Mr. KIMBALL. I really don't think——

Senator AIKEN. There is a drive underway to transfer much of the conservation work to Housing and Home Finance.

Mr. KIMBALL. It has been suggested if we attempted to take land out of agricultural production, and there is a need to provide for green space, let's say, adjacent to urban populations, that these programs might be combined.

Senator AIKEN. Of course they should cooperate.

Mr. KIMBALL. But you acquire the farmlands to reduce production, and still supply the recreation which is needed. Now, this type of arrangement I think would be in the overall public interest—to combine both programs, to help solve the surplus production program, the farm program—

Senator AIKEN. I gathered you felt that the programs could be handled better from the local area?

Mr. KIMBALL. Well, not so much this specific program. But this matter of an incentive payment to an individual family who may elect to allow hunting or other recreational opportunities on his land would have to be administered locally. There are too many varying circumstances.

Senator AIKEN. I think so, too.

The CHAIRMAN. But I think it ought to be handled by the farmer himself.

Senator AIKEN. As far as possible.

The CHAIRMAN. Yes.

Mr. KIMBALL. The distinction, Senator, though, is that currently if the farmer intends to charge for use of his land, he handles this himself. So this program would not interest the farmer who is interested in making a charge and collecting the money himself. But it might interest a farmer who is not interested in that phase of it. He might be interested in a general incentive payment from the Government, if a Government entity would handle all of the problems of policing his land and seeing that only a certain number were on there, that he would not have to collect from them and so on.

Senator AIKEN. But would you want that handled by the Housing and Home Finance?

Mr. KIMBALL. No. This would have to be by the local—

Senator AIKEN. You have to look out for it. While there are not many people concerned in the drive for this, there is a drive underway.

Senator COOPER. You may have heard the Secretary testify, and it was agreed that the lands to be taken out for these purposes must be land which is productive land and is producing the commodities that we are seeking to control.

Do you anticipate that much of that type land, if it is taken out of production, would be available for the kind of recreational use you are interested in; that is, hunting, fishing, wildlife enhancement?

Mr. KIMBALL. Probably not. It would be more suitable, perhaps, for mass recreation use, particularly those lands purchased very close to urban areas. Conceivably it could be—any environment which will produce wildlife is desirable from the standpoint of providing hunting or just the viewpoint of an individual who likes to see game, and so on, observe it, and photograph it. But generally speaking, this type of a program would be for mass recreation use.

Senator COOPER. You suggest that in addition to the payment that is made to the farmer, to take x acres out of production, the Department be authorized to make an additional payment when he opens up

his land to public recreation and hunting. Why would that be necessary? If the land is taken out for recreational usage, for a certain sum, why should he be paid an additional sum?

Mr. KIMBALL. This would be land that would not be taken off for recreation uses, or acquired for that purpose. This would be land that would be retired from the standpoint solely of reducing farm surplus and retired from production. But the point here is that land so retired could be used for a public purpose by allowing recreation on it, and that if he does permit public use, free public use, an incentive payment would encourage him to do this.

Senator COOPER. He cannot get a contract unless he agrees to a public use in certain areas, not in every case, but in some cases. Would this be transferring, say, the user fee of the hunter or fisherman to the Federal Government?

Mr. KIMBALL. Well, in a sense this is what it would be—providing some incentive payments for this public use, that's true—because now a farmer has a perfect right to charge a trespass fee on his land and collect it himself if he wants to, anyway.

Senator COOPER. I like your idea of cooperation with State agencies in the administration of the program.

Mr. KIMBALL. I think State and local control of a program of this type would be absolutely essential. It would not work any other way. There are too many different kinds of farms, varying amounts of land that would be placed in the program, varying types of habitats and recreational use which could only be determined by a local committee to determine what value it had for public use and to determine the amount of compensation an individual landowner ought to receive.

Senator COOPER. I think it would be much better to let the State conservation agency do it than the local committee.

Mr. KIMBALL. Or cooperation between the two.

The CHAIRMAN. Well, what concerns me, though, is that the farmer would receive from the Federal Government a certain amount to provide the facilities he is talking about. It seems to me that it could be simplified by putting as a condition before payment that the property is to be used for certain purposes, and then the local people could get together and determine how it should be used.

Mr. KIMBALL. That is the way we would envision it.

The CHAIRMAN. You would not want to put that in the law. That would be done by agreement?

Mr. KIMBALL. That's right. But it would have to be—the authority for the State and local committees to work in this area would be required in the law, would it not? In other words, they would have to be authorized to do this.

The CHAIRMAN. Well, the only thing the Government might do would be impose a condition that if these moneys are paid for recreational purposes, that it is to be used for that purpose, under conditions to be determined at the local level.

Mr. KIMBALL. That's right. That would be fine.

The CHAIRMAN. I imagine we could maybe do something like that.

Senator MONDALE. As I understand it now, if this title V, if the amendments you recommend were adapted, if a farmer were to retire some of his land under the CAP program, that would be solely for the idling of the acres and certain other uses that relate to conservation, the soil.

Mr. KIMBALL. That's right.

Senator MONDALE. That land is not available to the public to hunt, walk, fish, or otherwise enjoy.

Mr. KIMBALL. Unless the landowner permits it.

Senator MONDALE. But that still remains his choice. In other words, it remains his land insofar as that judgment is to be made.

Mr. KIMBALL. As far as public use is concerned.

Senator MONDALE. What you are proposing to do here is provide an incentive by which he makes his land public for those purposes if a little bit is added to the CAP payment.

Mr. KIMBALL. That is right.

The CHAIRMAN. Any further question.

Senator JORDAN. Why not let him charge?

The CHAIRMAN. He would.

Senator JORDAN. I know they do have——

Senator MONDALE. He can do that now.

Senator JORDAN. I mean where the Government has nothing to do with it—on his own farm. They raise quail and pheasants and you pay for hunting.

Mr. KIMBALL. Well, this can be done now and is done but——

Senator JORDAN. On a man's own farm?

Mr. KIMBALL. That's right. But there are a number of farmers who do not want to take time out from farming or doing what they want to do to police the person that might want to come on their farms to recreate and do the other things. If they permitted the State agency and the committees to handle all this detail for them, they might be willing to take an additional incentive payment under the program.

Senator JORDAN. Well, you would have to have a pretty big acreage. You could not have 10 or 15 acres.

Mr. KIMBALL. We are getting to the point now, Senator, where every little bit helps.

Senator JORDAN. Helps what?

Mr. KIMBALL. Provide for the present and future recreation needs of the people.

The CHAIRMAN. He is talking principally about the Northeast here, where it is one city after the other.

Mr. KIMBALL. It is going to get that way all over the country.

The CHAIRMAN. No; it won't.

Mr. KIMBALL. You don't think so?

The CHAIRMAN. No.

Senator JORDAN. That varies tremendously with the area, of course. That is not true in North Carolina, Kentucky, Tennessee, Virginia, South Carolina, Georgia. We have got more land than we know what to do with.

Senator COOPER. What about the price?

Senator JORDAN. It depends on who wants to buy it.

The CHAIRMAN. Any further questions? If not, thank you very much, Mr. Kimball.

Our next witness is Mr. Poole.

**STATEMENT OF DANIEL POOLE, SECRETARY, WILDLIFE
MANAGEMENT INSTITUTE**

Mr. POOLE. Thank you, Senator. This statement is written in the name of Mr. Gutermuth, who is the vice president of the Wildlife Management Institute. He is not able to be here today and he asked that I give it for him. I am the secretary of the Wildlife Management Institute.

The institute's program has been devoted to the restoration and improved management of natural resources in the public interest for more than 50 years.

Our testimony will be restricted to titles II and V of the proposed farm act. I wish to say at the outset that conservationists favor the extension of the feed grain program for another 2 years and the Soil Bank Act for 10 more years. We favor the extension of both programs because of the contributions each can make toward improved wildlife populations, better hunting, and broader opportunities for outdoor recreation, in general.

It is realized that the regulations that are written to implement titles II and V are fully as important to wildlife and recreation as are the authorizations for extending the programs themselves. The way these programs are administered in the field has a direct bearing on the usefulness of contracted lands for wildlife and hunting. For example, the dates for planting and the rates of seed application that are required under the feed grains program, the latest dates by which contracted acres must be mowed, and the weed control practices can relate directly to pheasant abundance in the North Central States.

Similar conditions apply to lands that would be diverted for long periods under the soil bank program. The tracts that are selected for diversion from crop production, the nature of the vegetative cover established on them, and many other factors have direct bearing on the ability of those lands to contribute to wildlife, hunting, and other recreation.

Experience in some States already has shown that the U.S. Department of Agriculture has sufficient administrative authority under the feed grains program to modify planting dates, seeding rates, and mowing practices so as to benefit wildlife. In Minnesota, for example, the Department cooperated with the State conservation department and adopted regulations, fully compatible with farming operations, so as to make feed grain acres useful for pheasant nesting. By seeding at heavier rates and by delaying mowing until chicks are safely off the nest, good pheasant nesting habitat has been created. This is important to Minnesotans, because nesting habitat is a limiting factor to pheasant abundance there. By realistic accommodations of this sort, USDA is able to broaden the benefits that the program primarily was intended to provide.

Conservation and wildlife interests favor extension of the soil bank program as proposed by title V. We think it is an essential program, both from the standpoint of providing a positive, long-term means of removing land from crop production and for placing "retired acres" in soil and moisture conserving status with subsidiary benefits to wildlife and recreation.

Upland game species, such as quail, rabbits, and pheasants, have responded favorably to the land retirement program in a number of States. Because of the soil bank program, game birds are found in parts of some States where they have been absent for years. The retired acres provide the kind of habitat the birds need in order to survive and reproduce. In still other States, pheasants and quail have increased greatly, and hunters have benefited as a result. Local businessmen had an opportunity to sell more goods and services to visiting hunters, and the sportsmen appreciated the improved recreational opportunity.

As stated earlier, it is recognized that some of the recommended improvements in this program are a matter of regulations and involve no significant amendment of the act itself. Nevertheless, we wish to outline our thoughts so they will be available for the committee's consideration. It is hoped, of course, that the members of the committee will find sufficient merit in the institute's comments to take appropriate action to assure that the soil bank program is administered in such a way as to attain more of the benefits that are possible.

The institute believes that the program should be modified consistent with the broad authority contained in the proposed amendment of the act, so as to make the land retirement features more acceptable to landowners and to a larger segment of the public. This would be done by granting additional incentives to farmers for placing retired lands in wildlife practices and by assisting the public in gaining controlled access to the lands for hunting and allied recreational purposes.

Conservationists suggest that the regulations place greater emphasis on encouraging farmers to improve the capacity of retired lands for wildlife production. This can be done in part by offering financial incentives that are competitive with payments offered under other agricultural programs. The farmer understandably selects the agricultural program that offers maximum return for his participation. Wildlife practices will be applied in large number only when it is to the landowner's economic advantage to do so.

The USDA should seek cooperative agreement with the individual State conservation departments, and it should broaden and expand opportunities for these State agencies to work with State and county groups already having responsibilities under Federal agricultural programs. These areas of cooperation have not been exploited fully in the present administration of farm programs. The State fish and wildlife agencies have the technical knowledge and the field staff to obtain maximum production of wildlife and hunting opportunity from retired acres. Cooperative arrangements would provide the USDA—and the landowner—with a degree of local direction and guidance otherwise not available. Most State conservation agencies have wildlife habitat development and technical assistance activities as part of their overall programs. They work closely with landowners, and the opportunities for coordinating these activities with the objectives of the extended soil bank program are virtually unlimited.

Experience has shown that landowners are interested in wildlife. They are prevented from increasing the wildlife capacity of their lands, however, because of the purely economic considerations that force most of them to devote their lands to uses offering the largest financial return or involving the least costs. Wildlife habitat usually is destroyed, as a result.

Studies of hunter-landowner relationships in a number of States have shown the landowners are primarily concerned about protecting their property from careless and improper use by some hunters. In States where the conservation agency has made its law enforcement staff available on immediate call, many farmers have responded by permitting use of their lands for public hunting under programs that control the number of hunters and regulate the places and times that they may hunt. This has proven especially effective near metropolitan areas where the problem of hunter access is the most critical.

To obtain maximum benefits for wildlife and recreation, the following program modifications or adjustments are believed necessary:

1. In determining the level of payments for converting excess cropland to wildlife habitat computations should be based on the land's potential to produce not only row, grain, or forage crops, but wildlife crops as well.

2. Conservation of land should be encouraged in those areas where it will be the most beneficial to species of farm game.

3. Program efforts should be directed toward getting a better distribution of small tracts of land on a large number of farms in good farm game range rather than large tracts of land on isolated farms in marginal wildlife range.

4. Lands already in preferred nesting cover, such as grass or legumes, should be retained in that cover and not shifted to some other cover. Special areas, such as wetlands and marsh, also should be retained.

5. Practices permitted on converted acres should include better methods of weed control and use of forage species that will encourage the development of high-quality wildlife habitat. Some of the weed control methods now in use, for example, have relatively little value in controlling weeds. They do destroy large acreages of wildlife habitat, however.

6. All lands that are put into wildlife practices should be managed specifically for wildlife. Other uses that may be permitted from time to time should be subordinate to the needs of wildlife.

Finally, Mr. Chairman, we believe that more public support would attach to the proposed extension of the soil bank program if it can be demonstrated that the public would receive some tangible benefit from the so-called retirement of cropland. It is believed that wildlife, hunting, and recreation offer the predominate beneficial uses that may be made of such lands. The Nation's conservationists and the State wildlife agencies, I am sure, stand ready to cooperate with USDA in implementing the extended program. It is hoped that title II, the feed grain program, and title V, the cropland adjustment program, can begin to operate along the lines that have been suggested.

Mr. Chairman, Mr. Kimball touched on this cooperative public hunting program in New York State, just 50 miles from New York City. Perhaps it would burden the record unduly, but I have a speech here which describes this program and how it operates. It was presented at the Northwest Wildlife Conference, in Harrisburg, Pa., in January of this year. It contains, I think, many interesting facts and experiences that the New York State Conservation Department has encountered.

Just briefly, immediately north of New York City there were nearly 11,000 acres on farms, under this cooperative hunting program. The farmers signed up to permit the public hunting on their lands. The State has booths whereby hunters coming into this area have to stop, they turn in their own hunting licenses, they are issued a permit and an armband. They are given a map of the area. The map of the area specifies the parking spots. As the hunters go down the road, they see the parking places. Each is marked to show the number of permitted cars. If three automobiles are parked there, they cannot park. They have to go on and find a designated parking spot which has capacity for them.

The parking spots are selected to distribute the hunting rate at 3 hunters per 100 acres.

This, as I say, is the acceptable hunting rate that the farmers in that area will go along with.

So it is all controlled and it has worked very well. They say that their most effective tool is their two-way radios. If a farmer has any kind of a grievance he has a phone number that he calls immediately and this man, who is a State conservation department employee, can be on the radio to notify a law enforcement officer. They said that in the 5 or 6 years that this program has operated, it has never taken longer than 30 minutes for a law enforcement officer to be with that individual farmer, and in one case the law enforcement officer was there in 10 seconds.

The CHAIRMAN. All of this has been developed at the local level?

Mr. POOLE. Yes, sir; it has.

The CHAIRMAN. If you don't mind letting us have this——

Mr. POOLE. I would be pleased.

The CHAIRMAN. Without objection, it will be filed for the committee's use.

Would you be a little more specific as to how the feed grain program would assist? As I understand, you take on allotted acres, all that the Government does is to say to a farmer if he won't plant this number of acres we will pay him so much not to plant.

Now, is it your idea that on this acreage the farmer will cut the weeds or grass at a certain period that will not affect the hatching of pheasants, or whatever the bird is?

Mr. POOLE. Yes, Senator. As a specific example in Minnesota which I think—which just happened last year, and is one of the most outstanding—they found these retired acres are actually planted, but then they are cut and the crop is destroyed, it is not harvested.

They were planting at only a certain seed rate per acre. It gave a thin cover. It was a little too thin for desirable pheasant nesting habitat. But planting at a little heavier rate per acre, the cover was thicker, more birds could nest in it. They were cutting too early. They were cutting before the peak of the pheasant nesting was over, so as a result they were destroying pheasant nests in this area. But by delaying the cutting, the chicks could get off the nest and be gone.

The CHAIRMAN. But all that was done at the local level on these lands that were diverted.

Mr. POOLE. Yes; and within the existing framework.

One other point as to the importance of this. Within the pheasant range in the State of Minnesota, nesting habitat is the primary limit-

ing factor on the abundance of pheasant, and these feed grain areas can provide, if properly administered, more pheasant nesting habitats.

The CHAIRMAN. Any questions?

If not, that is that last witness.

The committee will stand in recess until 10 a.m. tomorrow.

(Whereupon, at 3:25 p.m., the committee was recessed until 10 a.m., Friday, June 18, 1965.)

(Additional statements filed for the record on cropland adjustment are as follows:)

STATEMENT OF HON. GAYLORD NELSON, A U.S. SENATOR FROM THE STATE OF
WISCONSIN

Mr. Chairman, I appreciate this opportunity to submit testimony on S. 1702, the omnibus farm bill, and to offer comment and suggestions for change in the title providing long-term cropland adjustment.

Title V is of utmost importance because national farm policy is having a greater impact every year on recreation and wildlife resources. About four-fifths of the land in the United States is in privately owned farms and ranches. And about that same proportion of the game hunted each year is produced on those farms and ranches.

This situation creates an unusual opportunity for both the landowner, who needs more income, and the urban resident, who needs more recreation space.

The demand for recreational opportunity, based on availability of all kinds of outdoor resources, is creating so much pressure that most of this increasing demand soon will have to be met on private land. This is because of resistance to public land acquisition in many areas and lack of sufficient public money to buy and manage the recreation space that is needed.

The long-term cropland adjustment program introduced by the chairman of this committee offers a sound approach to two pressing national problems—the need for crop acreage cutbacks and the need for use of private land for recreation, hunting, and forestry.

This committee has an excellent opportunity now to help establish national recreation policy and fashion a major public land-use program. This is an opportunity to launch a program that could reverse the longtime downward trend in farm game populations.

Because of the importance of these policies, I want to offer some suggestions that you may wish to consider.

Experience with the original soil bank program, adopted in 1956, provides the Congress with some guidance for dealing with the need for public benefits in land diversion and retirement programs.

I am sure this committee, for example, does not intend to finance diversion of substantial amounts of private lands without guarantees of substantial public benefits.

In the soil bank program there were many instances where nonfarm people, and some farmers leaving agriculture, had land paid for by the Government that they used only for private recreation and speculation. I know the committee is well aware that the aim of a diversion or retirement program should be both cropland cutbacks designed to reduce production and maximum public benefit.

We also should not finance these programs without insisting that landowners adopt cost-sharing soil and water conservation practices where needed. Land is a national treasure and, whether retired or in production, should be carefully husbanded.

And we should not finance diversion or retirement of substantial amounts of private land without insisting on development of wildlife habitat and avoidance of practices that are detrimental to birds, animals and fish.

Nearly a million acres of cropland in good pheasant range were temporarily retired at one point in Wisconsin under the soil bank and feed grain programs. Yet a study by the Wisconsin Conservation Department concluded that virtually none was essentially managed to provide nesting cover for pheasants. Studies showed, however, that large numbers of pheasants would have been produced if nesting needs had been recognized and a few simple management practices adopted.

A wildlife biologist concluded the needed practices include (1) establishment of permanent cover, such as grass-legume stands, to provide attractive nesting cover early in the spring; (2) either delayed clipping for weed control until after July 15 or no clipping at all, and (3) carefully interspersed cover to insure maximum availability to nesting hens.

Since entire farm units were abandoned under the Soil Bank Act, studies also were made to determine what happened to wildlife when farms were retired without habitat development or management.

A major quail study showed, for example, that habitat improved in the first few years after a farm was abandoned. The land soon became covered by weeds and shrubs and, when surrounded by intensively farmed areas, became ideal wildlife territory. But eventually weedy fallow fields gave way to grass and trees and in the end became nearly foodless, semiforest type areas. As this change took place, quail and pheasant disappeared.

These studies show that stopping, cropping on farmland that is diverted or retired is not enough. Some wildlife management is essential.

A number of wildlife organizations have been insisting that changes in farming are creating a pressing need for wildlife management in rural areas. This growing concern is not prompted so much by the need for increasing hunting opportunity as it is to conserve farm game populations in the face of increasingly intensive farming practices.

Normal land-use practices, they contend, are becoming unfavorable to wildlife in most parts of the United States, but particularly in the Midwest. Two of our best game birds, the quail and the pheasant, are most severely affected.

The trend to more row crops such as corn and soybeans at the expense of small grains and hay is reducing the amount of these game bird nesting type covers. The same result comes from the shift in crop rotation patterns from corn-oats-hay to continuous corn on highly fertile soils. The amount of corn left standing or in shocks, as well as waste grain and weed seeds, has been sharply cut as a result of improvements in culture and harvesting equipment. Corn pickers, for example, are being constantly improved to reduce dropped ears and shelled corn left in the field.

Cover for all types of wildlife also is reduced with destruction of woodlots and brushy fence rows, uncontrolled burning of marshland and other wild areas, drainage, indiscriminate spraying of weed and brush killers on fence rows and roadsides, and heavier grazing.

These wildlife organizations have a strong case. It appears that the sportsmen from the city will soon have to look to properly managed private lands if they are going to continue to have access to good hunting. And they are going to have to agree to provide an incentive for the farmers who provide that management and hunting access. This cropland retirement program, if wildlife aspects are properly emphasized, can make that possible.

The alarm over declining farm game populations has led to careful studies documenting this problem. The findings are not encouraging.

A 1963 study of population dynamics and habitat management of quail in prime range in Wisconsin showed present destruction of habitat, if continued at the present rate, will result in disappearance of this excellent game bird in many parts of the State in another 10 years. Quail have been declining in Wisconsin for many years. The prime reason, the study concluded, has been the gradual reduction of hedgerow cover.

The study showed that the hedgerow cover required for maximum quail production was about a mile of 12-foot wide hedgerow for every 450 acres of farmland. It could be along fence rows or roadsides. There is no reason why the wildlife habitat programs on diverted or retired cropland could not include hedgerow preservation and restoration.

Some of the hedgerow cover in Wisconsin now has not been totally destroyed but is debrushed by spraying or cutting every few years. Preserving and restoring hedgerow cover in the future would benefit not only quail but also other game birds, animals such as cottontail rabbits, songbirds, and beneficial insects. It also is a good soil and water conservation practice.

An analysis of title V by the Department of Agriculture shows the proposed program now before this committee would permit cost-sharing for extensive planting of trees, shrubs, and permanent, high-quality grasses and legumes on these lands to provide wildlife habitat. It also would permit the Government to consider higher land rental payments to farmers agreeing to open their land to public hunting and other specific recreational activities.

I would recommend that the committee go a step further and guarantee that all the desirable practices are carried out on at least some of this diverted land in every State. I would recommend that it do this by offering, through State fish and game agencies, a special incentive payment to farmers agreeing to adopt carefully planned wildlife habitat programs and to open their lands to the public. This State-supervised and federally financed payment would be in addition to the regular land rental payment and any ACP cost-sharing involved.

I am preparing for introduction next week an amendment to title V to authorize the Secretary of Agriculture to transfer funds to State fish and game agencies for payment of these small "wildlife service payments." These payments would be for farmers certified by the State agencies as wildlife cooperators in this important public land-use program.

These wildlife cooperators, when certified by the State fish and game agencies, would be paid for carrying out some practices and for avoiding others. The State program of practices for cooperators would be determined by the type habitat development required for maximum wildlife benefits in the State involved.

In Wisconsin, for example, the cooperators might be required to refrain from cutting hedgerows in quail range or spraying them with brush killer. They probably would be required to observe strict mowing regulations so as not to disturb nesting of game birds. And they probably would have to provide some wildlife food patches to minimize winter starvation.

The practices in Louisiana, Vermont, or South Dakota would be different. These refinements would be determined by the State fish and game agencies, which have experience with State problems and conditions and primary responsibility for habitat development and maintenance. The Federal Government would provide basic guidelines, require public access of wildlife cooperators in all instances, and finance the small wildlife service payments for cooperators.

Because of the growing need for emphasizing wildlife benefits in farm programs, I also feel the Secretary of Agriculture needs a more formal system of obtaining information in this area. And the wildlife organizations and State fish and game agencies need a better system of access to USDA policymakers.

I am preparing for introduction next week a second amendment to title V that would establish a permanent advisory committee to the Secretary to make recommendations annually on wildlife matters. It would be appointed by the Secretary to advise and consult on matters relating to the long-term cropland retirement program. This Advisory Board on Wildlife would be made up of 12 persons chosen from members of wildlife organizations, farm organizations, State fish and game agencies, and the general public.

ST. PAUL, MINN., *June 25, 1965.*

HON. ALLEN J. ELLENDER,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.

DEAR SENATOR ELLENDER: I am writing you with reference to title V of S. 1702 which is being considered by your Committee on Agriculture and Forestry. I would appreciate having this letter inserted in the record of your committee hearings. I wish to state at the outset that conservationists appreciate and are encouraged by the consideration being given by the Congress and the Department of Agriculture of measures in the Federal farm program which will benefit populations and the opportunity for increasing outdoor recreation. We are greatly impressed with the vast opportunities for the development of wildlife habitat under title V of this bill.

Conservation organizations have long felt that the full benefits for wildlife in the cropland diversion program could be obtained only if long-term contracts were provided. In Minnesota, for example, one of the prime wildlife needs in the agricultural areas is better nesting cover for pheasants. Legume crops, such as alfalfa, which provide prime nesting habitat, cannot be developed under 1-year contracts. Under provisions of title V, however, it would be possible to provide cropland diversion contracts extending for a period of several years. This would allow the establishment of thousands of acres of critically needed prime nesting habitat which has not been available to date.

Provisions whereby landowners could receive acreage payments in recognition of benefits provided wildlife and recreational opportunities are considered to

be essential. The greatest problem that has existed under past and present programs is that there has been little incentive for farmers to initiate the necessary practices to provide these benefits. In too many cases, in fact, it has been more profitable for farmers to follow land management practices which adversely affected wildlife.

State conservation agencies would look forward with enthusiasm to the opportunity of working out agreements with the Department of Agriculture whereby they can be of assistance in acquiring cropland under provision of the act.

I strongly urge the adoption of language in title V which would provide—

1. The establishment of payments to landowners for the conversion of excess cropland to wildlife habita.

2. Strong incentives to landowners recognizing benefits of wildlife improvement in addition to other agricultural benefits.

3. A pattern of permanent-type nesting cover for upland game birds to increase the production of pheasants and other game and thereby increase the recreational use of these lands.

4. Further recognition of the economic opportunities in producing wildlife.

I commend the recognition that is being given natural resource conservation by the Congress and urge the adoption of programs which will further improve our agricultural economy and the Nation as a whole.

Very truly yours,

WAYNE H. OLSON,

Chairman, Legislative Committee, International Association of Game, Fish & Conservation Commissioners, and Commissioner of Conservation, State of Minnesota.

STATEMENT OF DR. SPENCER M. SMITH, JR., SECRETARY, CITIZENS COMMITTEE ON NATURAL RESOURCES

Mr. Chairman, the Citizens Committee on Natural Resources is a national conservation organization with offices in Washington, D.C. Our board of directors consists of some of the Nation's outstanding conservationists with capabilities in almost every area of conservation.

Before addressing ourselves to the specifics of the Food and Agriculture Act of 1965 (S. 1702), we wish to indicate our full accord with the basic philosophy of the Department of Agriculture. Agricultural policies in the United States have been fraught with difficulty and complexity for a number of decades. Many have sought to establish themselves as the final arbiter of the innumerable alternatives that have been so much a part of the discussions in regard to such policy. We are aware that no one program can solve all the problems in this area, but we feel the direction in which the Department has been moving is a correct one.

Simply stated, we understand the objectives of the Department to be adequate income for farmers, a maintenance of the basic and established farm unit—the family farm, a transfer of land used to produce surpluses to products and uses that are in high demand, and to conserve the land and water systems throughout the agricultural areas. We have supported the programs of the Soil Conservation Service, Forest Service and other bureaus that seek to improve the basic land structure of our agricultural operation. We feel, however, that the program for cropland adjustments will provide an overall basis for conservation as well as public enjoyment of large areas of private lands, a portion of which cannot be reached by other specific governmental programs.

It is perhaps an appropriate departure to indicate that the critics of these worthwhile objectives offer no solution either for the lands or for the people who work and reside thereon. To embrace programs that would accelerate or force people from rural to urban environments will not solve the problem of agriculture, but will undoubtedly add to the problems of our already overburdened urban areas. The transferring of our farm population with an age and labor skill to an area where these attributes would be a burden to the entire economy represents far greater costs than that being proposed by the present program. In addition, it would provide no solution for the basic conservation activities that are indispensable for continued growth and prosperity.

The purpose of title V, "Cropland Adjustment," is not to penalize the farmer for his efficiency and high productivity, but rather to enable him to enhance his own economic well-being, improve the quality of his own land and water and

help meet the burgeoning demand for outdoor recreation, which has increased at almost astronomical rates since the close of World War II. We hasten to add that these public recreation activities, properly directed, will not be incompatible with sound conservation management.

Previous programs have tended in this direction under the conservation reserve program, which was a part of the Soil Bank Act. These lands contributed much, not only to the conservation practices, but to the overall public recreation facilities.

My native State of Iowa, which is most representative of family farms, finds farmers turning more and more to private recreation activities. Small water impoundments well stocked with bass, picnic grounds, swimming facilities have added substantially to their incomes. In the neighboring State of Nebraska over 200 farmers have recently utilized their facilities to provide pheasant hunters with board and room as well as guide services. Many of these farmers find their biggest source of income derived from these activities.

In addition Americans are showing an interest in the farm vacation. This has been a supplementary activity for the European farmer for a good number of years and it has become increasingly popular throughout this country. Many want to give their children the experience of seeing a farm in operation, as well as seek some solace from the neon fright that besets most urban dwellers.

It is our judgment that the proposed amendment in title V (Cropland Adjustment), section 107 of the Soil Bank Act is an appropriate mechanism to aid the farmers in utilizing his land for "* * * practices or uses which will establish, protect, and conserve open spaces, natural beauty, wildlife and recreation resources, and prevent air and water pollution." The purport of this title will allow the Secretary to enter into contracts with the producers to divert the cropland to the uses mentioned above. The cost of transferring the cropland to approved uses would be shared by the producer and the Government for a period covered by the contract which would be not less than 5 years nor more than 10 years.

In addition to aiding individual farmers the Secretary would be authorized to utilize funds appropriated for the general purposes of the carrying out of this act to other Federal agencies, to States and State agencies, and local government agencies wherein there has been an agreement of retirement of cropland for non-crop uses. This agricultural program should have a greater appeal since it is voluntary and the farmer is not receiving payment for lands not in use. The passage of this legislation would make it incumbent upon the national conservation organizations to publicize fully the important contributions that are possible under the provisions of this legislation which would not only enhance conservation but provide needed facilities for recreation.

It is a change that has a much better augury for meeting the problems that lie ahead than the alternatives which suggest a sharp reduction in the number of farms. We were told a decade ago that a reduction of 1 million farms within 10 years would, for all practical purposes, remedy the basic agricultural problems. The results have been less than clairvoyant for over this past decade 1.2 million farms are no longer in existence. This fact alone has little causal relationship to any improvement in the agricultural situation.

Last year approximately \$25 billion was expended on recreation activities. This is an increase of approximately 500 percent in such expenditures within the last 25 years. One does not have to be statistically minded to compare the growth, which is probably understated due to the difficulty of data collection, with other sectors of our economy. A measure that seeks to change the use of resources from producing goods and services that cannot be marketed and return a living wage to the producers to the production of goods and services that can be marketed at a profitable rate to the producers is a strong economic argument that can be made in behalf of any program. In addition, the capital base, which in the instant case is the land and water fund, will be refurbished and improved.

We feel the purpose of this legislation is completely appropriate to the problems at hand and offers an excellent basis toward solving the problems of conservation, farm income, and recreation need. We hope the committee will find favor with the legislation and report it to the Senate at an early date.

STATEMENT OF R. WALLY PETERSEN, CHAIRMAN, DISTRICT OPERATIONS COMMITTEE, NATIONAL ASSOCIATION OF SOIL AND WATER CONSERVATION DISTRICTS, LAKEVIEW, MICH.

The National Association of Soil and Water Conservation Districts (NACD) recognizes that production adjustment is a key problem of American agriculture. Our member conservation districts are keenly aware of the need for fresh and effective approaches leading to an eventual solution of this difficult problem.

Nevertheless, NACD has not regarded commodity programs and production adjustment, as such, as issues on which it should take a policy position. On the other hand, one of the stated purposes of these programs has been conservation as well as production adjustment. NACD is prepared, therefore, to express its position on the direction these programs should take with respect to the conservation and natural resource issues involved.

The relevant policy in this field adopted by the NACD Council—which represents nearly 3,000 soil and water conservation districts and their 50 State associations across the country—is that massive adjustments in land use have important conservation implications and should be undertaken in an orderly way that is technically sound. In the context of this general policy, we believe the cropland adjustment program provided for in title V of the proposed Food and Agriculture Act of 1965 can be significantly useful in advancing the conservation objectives of the Nation and of individual conservation districts.

First, the program is designed to divert a total of 40 million acres of cropland from commodity production. We recognize that when this much cultivated land of any kind is put under vegetative cover, there is an almost automatic reduction in erosion hazard and a consequent net conservation gain. Benefits resulting from improved cover would accrue not only to diverted lands and their owners, but to the Nation as a whole—in reduced siltation, cleaner streams, and improved recreational opportunities.

Second, the program would retire from production cultivated land in two broad categories. A portion of the diverted land is likely to be land that, from a resource capability standpoint, should not be under cultivation in any event. The diversion of this kind of land to less intensive uses would represent a major step forward in proper land utilization.

The other category of land to be diverted is land that is quite capable of sustained cultivation, with appropriate conservation treatments. We are pleased to note that title V lays some stress on the application of conservation measures to land while it is under contract and provides for cost-sharing for these conservation practices. This means that land of higher quality, which may conceivably be needed in the future for crop production, will be eligible for needed conservation improvements of permanent value.

Third, we applaud the emphasis placed on the use of diverted lands—as opposed to idleness. The language of S. 1702 would encourage the maximum possible utilization of former croplands in the interests of all citizens, including those in the towns and cities as well as in the country. Some cropland adjustment programs in the past have ignored the fact that America cannot afford to waste land resources, even those not presently required for crop production. Most lands that are likely to be removed from crop production under this program are capable of being used for other worthwhile purposes—and this is desirable.

Finally, and this point is related to the preceding one, NACD supports the provisions of S. 1702 which add opportunities for landowners and local and State governments to develop and/or use diverted lands to promote natural beauty, conserve open space, prevent air and water pollution, and enhance wildlife and recreational resources. Across the Nation today there is a new awareness of the damage which rapid economic development and lack of proper management can cause to almost every aspect of our natural environment. Conservation districts have long been concerned with the need for orderly planning and development of resource use on a comprehensive basis, and these provisions would help to meet this objective.

For these reasons—because it would encourage wise land utilization, would reduce erosion and land damage, would emphasize productive use of diverted lands, and would advance truly comprehensive conservation programs on such lands—NACD supports title V of S. 1702.

With one additional change, NACD believes the title could be improved still further. The language of title V gives the Secretary of Agriculture the authority to provide by regulation for preservation of cropland, crop acreage,

and allotment history applicable to lands to be diverted. This is a departure from language which the Senate Agriculture Committee took special care to have included in the Food and Agriculture Act of 1962; language which affirmed by law the preservation of cropland history.

This is a matter of some concern to conservation districts. Without such protection, there is the possibility—as has been proven in the past—that the conservation farmer who may temporarily divert cropland to grass and legume cover or other soil-conserving uses will be penalized if cropland allotment history is not protected. The result is to discourage landowners from expanding acreages in grass and legume crops and thus retard conservation achievement.

NACD recommends that the present system of allotment protection be retained.

In his testimony before your committee, Secretary of Agriculture Orville L. Freeman said that title V: “recognizes that, while we have acreage we don’t presently need in crops, there is no such thing as unneeded land. Every acre of land in this Nation is precious to every American—and is not to be wasted through neglect or abuse or in the production of unneeded and unused farm production.”

NACD is in full agreement with that policy and is happy to offer its support to title V or S. 1702. We appreciate this opportunity to submit our views to your committee.

CONCORD, N.H., *June 21, 1965.*

HON. NORRIS COTTON,
U.S. Senate, Washington, D.C.

DEAR NORRIS: I have been reading with interest, title V of the Administration’s Agricultural Act (S. 1702 and H.R. 7097) and it appears to offer some wonderful opportunities for fish and wildlife and various forms of outdoor recreation. Title V of the bill has further been improved through an amendment submitted by the Conservation and Credit Subcommittee of the House Committee on Agriculture.

Although this would have little effect here in New Hampshire, I do feel that it would be a direct benefit to wildlife in some of our Western States with which I am reasonably familiar. I do hope that after studying it, you may feel that it is a worthy piece of legislation and give it your support.

Kindest personal regards.

Sincerely yours,

Ralph,
RALPH G. CARPENTER, 2d,
Director, Fish and Game Department, State of New Hampshire.

FOOD AND AGRICULTURE ACT OF 1965

FRIDAY, JUNE 18, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room 324, Old Senate Office Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender, Jordan of North Carolina, Russell of South Carolina, Aiken, Young of North Dakota, Cooper and Boggs.

The CHAIRMAN. The committee will please come to order.

We have the privilege of having Mr. Patton before us, the president of the National Farmers Union.

You have a written statement?

Mr. PATTON. Mr. Chairman, I have a short written statement and a number of our State presidents with me.

The CHAIRMAN. If you desire to have them sit with you——

Mr. PATTON. I wonder if they can sit with me?

The CHAIRMAN. I know we are safe in doing that. You might identify them.

Mr. PATTON. I might formally identify these gentlemen for the record. I have with me here, first, Mr. Ed Smith, the president of the North Dakota Farmers Union, who is also chairman of our executive committee, and then next to him Mr. Martin Byrne, the president of the Kansas Farmers Union, who will discuss and answer questions on wheat, as will Mr. Smith.

Senator YOUNG. Mr. Byrne is also a former North Dakotan.

Mr. PATTON. Yes.

Next to him Mr. Gilbert Rohde. He is a member of our executive committee from Wisconsin and next to him Mr. Lail Schmidt, president of the Rocky Mountain Farmers Union, and next to him Mr. Elton Berck of Nebraska, and then we have our own legislative director, Reuben Johnson, sitting behind me, and over here these gentlemen, Mr. McCasland, Mr. Carl Otto and Mr. Forest Burns, all members of Rocky Mountain Farmers Union.

STATEMENT OF JAMES G. PATTON, PRESIDENT, NATIONAL FARMERS UNION

Mr. PATTON. Mr. Chairman, before I read my very short formal statement, I would like to reminisce just a little bit.

It was 28 years ago that I first appeared before this committee and at that time there was a gentleman by the name of Pope who was the Senator from Idaho and who was holding subcommittee hearings on the crop insurance bill.

Mr. Chairman, all through the years, despite the fact I get discouraged at times, as I know you do, there has been great progress and it has been due to this very fine committee which I have worked with and with you for many years and with Senator Aiken and Senator Young.

The CHAIRMAN. I have been on this committee only 28 and a half years.

Mr. PATTON. I know.

The CHAIRMAN. And I have had a hand in developing every piece of legislation of any importance affecting agriculture coming before the committee.

Mr. PATTON. You certainly did.

The CHAIRMAN. Of course, we passed a number of laws here which are not administered quite in keeping with what we intended.

Mr. PATTON. We felt that frequently.

Senator AIKEN. It is still the most important committee.

The CHAIRMAN. Sure.

Mr. PATTON. Yes.

Senator AIKEN. And the most important occupation in the world.
(Discussion off the record.)

GENERAL

Mr. PATTON. Mr. Chairman, I want to thank you and the other members here this morning for their faithful support.

The importance of the enactment of a farm bill in 1965 is certainly vital at this time to protect the family farm.

The Farmers Union definition of a family farm is:

* * * an economically adequate agricultural production unit using land and other capital investment, operated by one or more farm operator families who provide the management, take the economic risk and do most of the work required to operate the unit.

This is a definition, Mr. Chairman, of our program.

The CHAIRMAN. In that connection, Mr. Patton, the size of the farm, of course, and the amount produced differs throughout the country.

Mr. PATTON. Yes, sir.

The CHAIRMAN. In keeping with the definition I wonder if you have worked out how many acres it would require, let's say, in Illinois, as compared with the South and West or East.

Mr. PATTON. In the next paragraph I state that we have called on the Secretary of Agriculture to define the family farm county by county. We feel farm programs could best be operated in ways that will protect family-type farms if USDA would establish the criteria defining the family farm in every county in the United States.

Even two wheat farms can vary. In one county I know of you have hard ground and in the other you have soft ground and you have a difference in the volume of production, and that is quite a substantial difference because of the difference in soil.

Second, parity of income is the objective of the Farmers Union. The Farmers Union defines parity income as return on family labor, management, capital investment and risk comparable to the returns to similar products resources received elsewhere in the national economy.

Three, we urge that all commodity programs, such as cotton and dairy, be included in any bill reported by the committee.

Four, in order to move as rapidly as possible toward the objective of parity income and a greatly strengthened family farm agriculture Farmers Union supports the following amendments to S. 1702:

Five-year program for feed grains and wheat;

One hundred percent of parity on domestically consumed wheat (500 million bushels).

Mandatory export certificates of at least 25 cents per bushel;

An increase in the price received by farmers for feed grains to 100 percent of parity over a 4-year period;

Continue the existing rice program—strike out title III which provides a substitute program;

Amend title V, cropland adjustment, to prohibit retiring whole farms and provide for selective retirement of acres by commodities with emphasis on profitable uses of the land retired;

Strike out authority in title VI, which permits sale or lease of allotments;

Sale of wheat by CCC at 120 percent of loan rate.

Five, authority for Federal milk order for manufacturing milk, class I base plan with provisions for entry of new producers and authorize USDA to purchase dairy products as needed for worthy domestic and overseas outlets, whether or not in surplus.

Six, Farmers Union supports S. 1766 introduced by Senator Aiken and 92 cosponsors which amends the Farmers Home Administration Act of 1961 to authorize the Secretary of Agriculture to make or insure loans to public and quasi-public agencies and corporations not operated for profit with respect to water supply and water systems serving rural areas and to make grants to aid in rural community development planning and in connection with the construction of such community facilities, to increase the annual aggregate of insured loans thereunder, and for other purposes.

Seven, the target program adopted by delegates to the 1965 convention of Farmers Union, I would like to ask permission to file for the record, it is short, Mr. Chairman, and it was the target program which was adopted by the national meeting in March.

The CHAIRMAN. In March of this year?

Mr. PATTON. Yes, sir.

The CHAIRMAN. Did you have before you the pending legislation?

Mr. PATTON. We did not at that time, no, sir. If I may, I would like to file it for the record.

The CHAIRMAN. In the course of the hearings if it is possible to point out the difference between what you——

Mr. PATTON. Yes, I think we probably will be able to.

The CHAIRMAN. What you recommended and what is contained in the legislation.

Mr. PATTON. Fine.

Now, Mr. Chairman, I would like to, with your permission, ask Mr. Ed Smith to take on the matter of wheat and call on the others with your permission and we would be glad, any of us, to answer questions.

The CHAIRMAN. Yes, I notice you recommended the striking out of title III which deals with rice.

Mr. PATTON. Yes.

The CHAIRMAN. Have you anyone here who will discuss that?

Mr. PATTON. Yes, Reuben Johnson will. The gentleman who was chairman of the Rice Committee couldn't come because of illness in his family, Mr. Johnson of Arkansas, and so Reuben Johnson, our legislative director, will handle that.

The CHAIRMAN. All right.

You have witnesses who cover all titles?

Mr. PATTON. Yes, sir.

Mr. Ed Smith, chairman of our committee—our executive committee is next in line.

The CHAIRMAN. All right, Mr. Smith, you may proceed, sir.

STATEMENT OF ED SMITH, PRESIDENT, NORTH DAKOTA FARMERS UNION, JAMESTOWN, N. DAK., ALSO REPRESENTING THE NATIONAL FARMERS UNION

Mr. SMITH. Thank you, Mr. Chairman, and distinguished Senators.

The CHAIRMAN. Do you—you don't have a written statement?

Mr. SMITH. No. Jim did a good job as far as I am concerned about stating our position. I just wanted to bring you up to date and to thank you for that wonderful and gracious way in which you handled our plane trip, Senator. You remember on May 4 we came down in a bipartisan group in which some of you people participated. We had a charter airplane of 92 people aboard. It was bipartisan. It went clear across the economic spectrum in North Dakota and I see three of you at least were there, Senator Aiken and Senator Young, our Senator from North Dakota, and you Senator Ellender, and our people were tremendously impressed with the fact that you people sat there for an hour, listened to our problems, and then you presented your statements.

I think it was a tremendous thing.

The CHAIRMAN. We need a lot of light, you know. We need a Moses now to lead us out of the darkness. We are looking to all of you to give us some ideas as to what to do.

As Mr. Patton said a while ago and as I have also indicated, I have been on this committee now 28 years.

Mr. SMITH. Yes.

The CHAIRMAN. To some extent it has been very frustrating work, frustrating, I mean that. But I still have hopes, because in my humble judgment agriculture is the most important segment of our society. If we don't take care of the farmer, why everybody is going to die on the vine and that is why we are so interested in the subject. That is why I, as long as I remain in the Senate, am not going to give up my membership on this committee.

Senator JORDAN. Did you say it was a bipartisan plane or the crowd that was riding?

Mr. SMITH. I suspect the crowd aboard.

Senator YOUNG. Mr. Chairman, this was an unusual and unique undertaking for North Dakota and I suspect that it would be for most other States as well. This group included some of the toughest conservative Republicans in the State. They, along with all of these folks, realized the need to continue strong price-support programs. They realize the need of a better program of farm price supports.

Senator AIKEN. I remember when these people used to come in by bus. It took 2 days and a night to get here with continuous riding, and I understand when they got back home they were pretty well calloused.

Mr. PATTON. And not on our hands.

Mr. SMITH. Might I say that we chartered this airplane and did all the preliminary work and all of these people paid for their own fare down here, and we could not have done this 2 years ago, not because of the political atmosphere, because I don't think business people who were aboard would have agreed that this was necessary 2 years ago.

But now they seem to have come to the conclusion they are in real trouble and we think this is true in North Dakota.

The farmer is something like our Federal Government here, with the disappearance of gold. Our credit is disappearing. In North Dakota, we no longer have any credit.

If the PCA's (the production credit associations), and the FHA were to call in the debt along with bankers, I think it would destroy our economy over a very brief period.

Senator YOUNG. This situation prevails in spite of far better than average crops over the last 3 years?

Mr. SMITH. Yes.

Senator AIKEN. I say some people have forgotten that the American farmer is still the best market for industrial and manufactured products that there is in the world.

Mr. SMITH. Sure.

Senator AIKEN. And when they look for a gain somewhere else by trading off agriculture, they don't realize that they are trading off their own best markets.

Mr. SMITH. Yes; I think this is right, and I think that should these people call in their debts, I think you would see a chain reaction out there that would be devastating. I think you would find the attrition would be much more accelerated than it is now and some of the repayment on REA loans and all the things we now have would be in default and I think it would be tragic.

Senator AIKEN. Yes.

Another thing they forget is that there is a way to improve their business without taking it away from somebody else.

Mr. SMITH. Certainly.

Senator AIKEN. With the tremendous increase in demands all over the world today occasioned by the increase in population—a hundred million more expected in the United States in the next 30 years—they should just adapt themselves to that market instead of trying to grab it off from somebody else or get the best of somebody else.

Mr. SMITH. It appears to me we could get in a position where we come with too little too late.

Senator AIKEN. We are working that way I am afraid.

Mr. SMITH. And see too much of our population move into the now-crowded cities and we have problems now. These people might become wards of the city or county or some local government which would be most destructive to their standards of human dignity and everything else. I think of the story of the fellow who is out here 30 feet drowning and you throw him 20 feet of rope, you don't do much for him. You ought to at least throw him 30 feet so he has at least some chance of coming back and this is about where farming is today.

We think farmers ought to have parity of price because we are having to pay the parity of price for the industrial goods, as you mentioned, and we are the biggest purchasers of petroleum, rubber, and steel products of any given segment of the economy.

So, I think farming, as you say, Senator, certainly is important, and I feel—my personal opinion is—if something isn't done, and very quickly about getting our fair share of this economic cycle, that a decade down the road, maybe 20 years, maybe less than that, but it would appear to me that this Government might have to spend 10 times as much money to repopulate rural America, because there will be no room in the cities if automation takes over.

We ought to take care of this before it goes too far.

The CHAIRMAN. One thing that has concerned me in the last 4 or 5 years, is the shift of population from the farm, from country to the city.

When I first came here, as I recall, about 22 to 23 percent of the people lived on the farms, they earned their living there. Today, it is about 7½ percent. That shift is being reflected in the House of Representatives. We have a lot of Congressmen who represent city-folks entirely. Of course, city folks don't like these payments being made to the farmers. You see it all around. What concerns me is the fact that many of these programs are becoming more and more costly. That cost is reflected either in taxes or in prices, you know. My fear is that if we are depending on the Government too much and make these programs cost too much there may be a reaction by the Congressmen who represent the cityfolks in the House of Representatives.

Mr. SMITH. Certainly.

The CHAIRMAN. We have discussed that around this table quite often and that is a big concern to me.

When we consider legislation I wish we could devise some way whereby this 100 percent of parity you speak of could be obtained without too much Government interference, or without too much Government contribution. That is the thing that has concerned me throughout. I am very hopeful that we will be able to find a Moses in this room before these hearings are over.

Mr. PATTON. It seems to me, Mr. Chairman, that one of the things to face in America, we have had a cheap food policy so far as our consumers are concerned, ever since the English passed the corn laws, and they passed the corn laws for a cheap food policy so far as the consumer is concerned.

Somewhere along the line we are going to have to reach a place whereby producers of foodstuffs are recognized in the same fashion as are the producers of automobiles. There isn't a thing in the world that I can do about reducing the price of an automobile. If I buy a new tractor on my farm I can hawl and maybe the local dealer will take a little off his commission, but the vertical integration of the steel industry, for example, and many other industries is such that we have nothing, the consumer hasn't anything, to say and somehow we are going to have to reach—we are prolabor but we are going to have to reach—a better understanding. The American consumer is going to have to pay us a fair price for our commodities and I am in complete sympathy with your long-range objective of having it more direct.

By that I mean payment be made direct. That is one reason why we were strong for the food marketing plan to see where the money was going because it would go to the farmer. It seems to me that we have all been struggling for years, for a better way to protect farm income. A severe blow was dealt when the *Schechter* case knocked out the original triple A program. Of course, we had another very destructive blow hit us when the forces that were opposed to mandatory supply management succeeded in defeating the wheat referendum. We have been in a deep dilemma ever since that time because we haven't succeeded in developing a food policy, and that is no reflection certainly on this committee, which manages the supply, as does industry and as does the labor movement in relation to agriculture.

This, it seems to me, Mr. Chairman, is our dilemma.

It is of genuine concern to me when I think about spending \$23 billion to go to the moon but we howl like the devil over spending a few billion dollars to go to parity for the American farmer who produces food for less of the worker's time and earnings than any place in the world.

The CHAIRMAN. Well, this Commission to which you refer has been given the money to do the job and I am very hopeful we will find out who gets what.

I am sure the farmers don't get it. The difference between what the consumer must pay for commodities and what the farmer gets has increased. When the housewife, goes to the market, I presume she even pays for the music she hears at the store that she visits as well as the parking area.

I hope we can find the answer and still retain our way of life. I wouldn't want the Government to get in and try to regulate things any more than they are doing now.

Senator Aiken?

Senator AIKEN. You said the Commission has now got the money. This Commission probably will be permitted to spend the money. But let me point out one of our difficulties these days, and that is when Congress appropriates a certain amount of funds for a certain agricultural program, the Budget Bureau arbitrarily can and does step in and say, "We are not going to permit you to spend this money."

And I think that is clearly circumventing the intent of the Congress with some of these programs.

I had a complaint this morning that the Budget Bureau has directed one of the agencies serving rural people not to spend the money which was appropriated and authorized by the Congress. That is the REA. They told them not to spend it.

The CHAIRMAN. I wonder if we could get down to specifics.

Mr. Smith, will you proceed, sir?

WHEAT

Mr. SMITH. I don't have any real specifics on the wheat except what Mr. Patton said here, but it is my opinion if we are going to save wheat States we will have to have additional income, more income than we had in the last year's wheat bill and it ought to be in the long-range program so that the farmer has a right to plan some of his

farming operations, too, and, of course, we feel that the minimum ought to be parity or around two and a half dollars a bushel for wheat.

These are the things that concern our farmers.

The CHAIRMAN. Now, Mr. Smith, when we ask for a hundred percent of parity, we are told that the cereal manufacturers may resort to substitutes, if they have to pay that much for wheat. What have you got to say about that? They decrease the use of wheat. Then, on the other hand, we have a lot of complaints that even among the users of that commodity that to pass on this to the consumer won't be received with dignity. It might result in the amount of wheat consumed being appreciably decreased.

I wonder if you could tell us something about that.

Mr. SMITH. Let me touch on that briefly. In the last number of years since 1947, bread has gone up nine times—a total of 9 cents, and the price of wheat has dropped so it is apparent to me that the price of wheat is not the factor here. There isn't sufficient wheat in the loaf of bread to make the difference.

But, of course, the cry "a bread tax" is going to be the weapon used against any type of a farm program that is good for us, and I think the logic would follow then if a farmer can expect any type of a decent standard of living—then why didn't they call it bread tax in the past years when the price of bread increased? When the price of cars goes up they never say "car tax" or the price of television or anything like this. But because it is a political football here, it appears to me, the farmer is in the squeeze. I hope Congress will not be influenced by the false charge.

The CHAIRMAN. Have you any suggestions to make so that we could remove that contention?

Mr. SMITH. Well, I think the committee that is now in operation, the Food Study Commission; if this committee would come out with the facts—given the proper authority—it would appear to me they could dispel this cry "bread tax" and the farmer is getting too much out of Government.

I think they could dispel this.

Senator YOUNG. Mr. Chairman, about 2 weeks ago the executive secretary of the Food Study Commission appeared before the Senate Subcommittee on Agricultural Appropriations. At that time I raised this particular question, asking him if the Commission would investigate the increased cost of bread as a result of the wheat certificate program. He said they would do that.

Presently wheat only represents 2.6 cents in the cost of a 1-pound loaf of bread. If the Commission makes this investigation, I think this will help a lot to provide a clear picture of the true costs. As the chairman says, there is a lot of propaganda being spread all over the United States now concerning the cost of wheat certificates. This does have considerable influence on consumers.

This has been very effective to the end that consumers actually believe they are paying farmers an unreasonable price for wheat even though they will still be getting wheat at parity which by Government standards is a fair price.

Mr. SMITH. I have no further statement.

(Supplemental information submitted by Mr. Smith is as follows:)

SPREADS IN FARM-RETAIL PRICES OF BREAD

LEGISLATIVE ANALYSIS MEMORANDUM NO. 4-65

Prepared by Reuben L. Johnson, Director, Division of Legislative Service,
National Farmers Union

Wheat Users Committee

Announcement of the creation of a Wheat Users Committee has caused a great deal of interest on the part of proponents of the farm bill. The reason is that this committee has the avowed aim of defeating H.R. 7097 and S. 702 now before the House and Senate Agriculture Committees.

Labeling the wheat program as a "bread tax," the Wheat Users Committee is taking the same old wornout line of the Farm Bureau Federation. The new element in this effort is to be found in the fact that the Wheat Users Committee is devoting their efforts toward enlisting the support of liberal groups, including both labor and consumer organizations. Hired to represent the committee are the former liberal Congressman from Alabama, Carl Elliott; former director of the Committee for an Effective Congress, Maurice Rosenblatt, and Clarence W. Moore.

The committee has published a pamphlet which in summary charges:

1. The increase in the wheat certificate to \$1.25 per bushel would constitute a 2-cent tax per pound loaf of bread.
2. An increase in consumer costs for bread in excess of \$400 million per year.
3. Bakers of bread would serve as tax collectors.
4. The increase in bread prices would affect low income groups most of all.
5. The proposal might decrease the consumption of wheat and thus aggravate the wheat surplus problem.
6. The larger wheat farmers would benefit mostly from the increase in wheat prices.
7. The American consumer would be required to subsidize export wheat under the proposed legislation.

This new lobbying group represents 23 baking companies, Pillsbury Mills and two bakery unions. Its major source of financing comes from the bakeries.

This memorandum will deal with the charges made by the Wheat Users Committee in addition to providing information in behalf of the enactment of the wheat program reported by the Wheat Subcommittee of the House Agriculture Committee.

It must be borne in mind that the charges made by the Wheat Users Committee parallel those made by the Farm Bureau.

Congressman Bob Poage, Democrat, of Texas, vice chairman, House Agriculture Committee, charged the American Farm Bureau is creating a "phony issue" in criticism of the administration's proposed wheat legislation.

"It's a sad situation," Congressman Poage said, "when for the first time a wheat price increase benefits the farmer, a farm organization has to rush in and oppose it. The Farm Bureau criticism is focused on the expected 1-cent increase on a loaf of bread when this bill to raise the farmer's income from wheat is passed."

Pointing out that bread prices have increased in each of the last 14 years while in 9 of those years wheat prices went down, Mr. Poage said, "I would like to know why your organization wasn't protesting then?"

"The truth is," Congressman Poage told the Farm Bureau witness opposing the 100 percent of parity feature for domestic wheat, "your organization is creating a phony issue in its annual effort to defeat the farm bill."

All other farm organizations have supported this section of the bill.

It is ironic that the Wheat Users Committee would be able to excite liberal orientated consumer groups who, along with the Farmers Union, have been proponents of universal coverage of the minimum wage, expanded social security, medicare, creation of an urban affairs agency, et cetera—if in fact the committee has been able to enlist the aid and support of such groups on behalf of their program.

Wheat price effect on the price of bread

The latest information concerning the effect of wheat prices on bread prices results from comprehensive study made in 1963. However, the research and information is still pertinent to the current situation.

The national average price for bread in 1963 was 21.6 cents per pound for a loaf of white bread—0.4 cents higher than the 1962 price and 60 percent higher than the 1947–49 average (68 loaves of one pound each can be produced from flour processed at an extraction rate of 72.5 percent from 60 pounds of wheat).

The farm value of wheat going into a loaf of bread of one pound was 2.5 cents in 1963—0.1 cents lower than the 1962 farm value.

To justify an increase of 1 cent per loaf on the basis of wheat costs alone, the average farm price of \$1.94 (annual average received by producer in 1963 would have to be increased about 40 percent for a total of about \$2.70 to \$2.80 per bushel). However, it could be anticipated that bread prices would be increased a full cent on the basis of an increase of one-half that amount in cost of wheat or about 30 to 40 cents per bushel to about \$2.30–\$2.40 per bushel at the farm level.

Farmer's share decreased

The farm value of wheat decreased from 2.7 cents in 1947–49 to 2.5 cents in 1963. This decrease in farm value plus the increase in the retail price was accompanied by an increase in marketing charges. Although the farm value of the wheat was 0.02 cent higher in 1963 than the record low level of the period in 1959 and 1960, the farmer's share of the retail price declined to about 14 percent in 1963 from 24 percent in 1947–49.

The farmer's percentage share of the annual retail price has decreased in 9 of the 16 years since 1947, increased once, and remained unchanged 6 years.

Why price spread widened

The widening of the price spread between 1947–49 and 1963 was due primarily to higher costs for baking and distributing bread. Hourly earnings of production workers in bakeries in 1963 were \$1.18 higher than in 1947–49, increasing from \$1.15 to \$2.33 per hour.

Hourly earnings of production workers employed in plants producing all types of bakery products rose about 103 percent between 1947–49 and 1963. This added cost has been passed on to consumers. Other noningredient costs such as wrapping materials also rose. Retailers' spreads have increased. Hourly earnings in the flour milling industry also increased but flour prices did not change as much as bread prices. Flour prices tended to vary closely with the cost of wheat to the miller until 1956 when an upward trend started in flour millers' spreads. Rises in cost of items used by firms in the marketing process, and thus their spreads accounted for the 60-percent increase in the retail price of bread between 1947–49 and 1963. During this period the baker-wholesaler's spread rose 5.8 cents and accounted for over 70 percent of the increase in the retail price.

In 1963 labor costs amounted to 6.2 cents per pound loaf of bread including fringe benefits. The cost of producing and distributing a 1-pound loaf of bread in 1963 was 3.5 cents higher than in 1945. Labor cost increases accounted for nearly 50 percent of the rise in the baker-wholesaler spread. This spread rose from 54 to 68 percent of the wholesale price from 1947–49 to 1963.

Farmers get small part of bread dollar

Only 3.1 cents of the average price—21.6 cents—paid by consumers for a pound of white bread in 1963 was returned to farmers for wheat and other ingredients of farm origin such as lard, sugar, and dried milk. Wheat farmers received about 2.5 cents in 1963, 2.7 cents in 1947–49, and a low of 2.3 cents in 1958–60. Even if the farmer had donated his wheat, white bread still would have cost consumers about 19.1 cents per loaf in 1963. Alternatively, if the bread price had risen only as much as all foods for home consumption, the retail price of bread would have been about 16.2 cents a pound loaf in 1963 instead of 21.6 cents.

Or, if the farmer had received an 81-percent increase in the price of wheat from 1947–49 to 1963—the same as marketing spreads increased—he would have received about \$3.87 per bushel, and a loaf of bread would have cost the consumer about 24.4 cents in 1963. This would have added 2.8 cents to the retail price of bread, and the wheat farmer would have received about 5.3 cents of the average retail price in 1963.

The farm value of other ingredients has fluctuated around 0.6 cent per pound of bread since 1947–49. The low of 0.5 cent was reached in 1950, 1955, and 1959–62. The high point was 0.7 cent in 1951.

Farmer's prices don't govern bread prices

Farm values of wheat, sugarbeets or sugarcane, milk, and hogs (lard) are such a small portion (14 percent in 1963) of the retail price of bread that large

fluctuations in farm prices can take place with little effect on the price of the finished product.

The farmer's share is not significantly altered by the choice of bread formula because the amounts of nonflour ingredients are small. To 100 pounds of flour are added 2½ to 4½ pounds of lard, 6 to 9 pounds of sugar, up to 5 pounds of milk, plus minor ingredients and water to produce 150 to 165 pounds of baked bread.

Miller's flour spread increases since 1955

From 1947-49 through 1955, the miller's flour spread for milling the wheat needed to produce the 0.641 pounds of flour used in making a 1-pound loaf of bread was stable at 0.6 cent. After 1955, the miller's flour spread gradually increased. In 1963, it was 1 cent per pound loaf of bread, 67 percent higher than in 1955.

Despite an estimated 106-percent increase in hourly earnings of grain mill production workers between 1947-49 and 1963, labor costs of producing a unit of flour have increased only moderately, compared to the baking industry, or a little over 25 percent. The increase in the miller's flour spread since 1955 appears to be associated with an increase in costs and with an increase in the amount of flour extracted per bushel of wheat milled.

Trends in prices and consumption

Mr. Kenneth E. Ogren, Marketing Economics Division, ERS, in an address delivered on October 29, 1963, at Peoria, Ill., in discussing "Trends in Prices and Consumption" had this to say about bread prices:

"* * * Now let's go back to bread prices. The data for bread are U.S. averages that also mask much variability. For example, in the 20 large cities prices by BLS the average retail price in 1962 varied from a low of 17.4 cents in Houston to a high of 28 cents in Los Angeles, 61 percent higher than in Houston. Even more significant are the following statistics: The price of bread in Houston increased about 5 cents from 1947-49 to 1962 or about 40 percent, while the price in Los Angeles rose by 14 cents, or 100 percent * * *"

"* * * What caused the rise in the average U.S. price of bread?

"* * * Primarily, the higher costs of baking and distributing bread (table 2, figure 2). The difference between the estimated cost to the baker of all ingredients and the wholesale price rose from 6 cents in 1947-49 to 11.5 cents in 1962, an increase of almost 100 percent. Gross spreads of millers and retailers also increased during this period. But these spreads increased by a smaller amount; they also are a much smaller part of the total price of bread, especially the millers'. The price of wheat has little effect or relationship to the retail price of bread. In 1962, it would have taken a 40-percent drop in the price of wheat to lower the price of bread by 5 percent or by a single cent. Conversely, a 40-percent increase in the price of wheat in 1962 would have increased the price of bread by only 1 cent—roughly 5 percent. We have not experienced such a large change in the price of wheat in recent years."

Conclusion of investigation and study

The foregoing information indicates that the farmer has the least bargaining power of any group receiving a portion of the price of a loaf of bread. There is no justification for a 2-cent increase in the price of a loaf of bread. Acknowledging that the increased price to producers would justify about 1-cent increase in the price of a loaf of bread, the effect on the cost of bread to the consumer would be minuscule. The average consumers grocery bill would increase only by about \$1.60 per year. In a country in which the expenditure for food represents only 18 percent of the family income on the average, there is no justification for the charges made by the Wheat Users Committee, that the interest of consumers would be adversely affected. For the very low income group, the food stamp program passed with the support of the Farmers Union and other consumer groups including labor organizations, would offset any adverse effect.

The charge that only a handful of wheatgrowers would benefit from the program are unfounded. More than 85 percent of all wheat acres are signed up in the 1965 wheat program with more than 50 percent of wheatgrowers participating. With an increase in certificate value to represent 100 percent of parity returns on wheat consumed domestically, it is anticipated that 90 percent of wheat acres will be in the program.

It is expected that between 60 and 70 percent of wheatgrowers would be participating in the program in future years. Therefore, a minimum of about a million wheatgrowers would be benefiting from the wheat program under attack by the Wheat Users Committee.

One can speculate only on the real objective of the wheatgrowers committee. The purpose of the charge that the wheat program now under consideration by Congress would increase bread prices 2 cents per pound loaf may be that of justifying an overcharge to consumers for bread of 1 cent per loaf. If this is the purpose of the wheat users committee it should be exposed for what it is—an attempt to foster upon the consumer an overcharge while placing the blame on the wheat program.

We urge that the National Food Commission begin an immediate investigation of the wide variation in bread prices between cities and areas of the United States and to determine what increase in bread prices can be justified under the wheat program being considered by Congress.

We further urge the supporters of other legislation of benefit to consumers to consider their interest in these areas before being falsely led into joining a campaign financed and supported by those interests that in the past have not proven friendly to the broad range of legislation that is of direct benefit to consumers.

TABLE 1.—Distribution of retail price of bread, by recipients, 1963

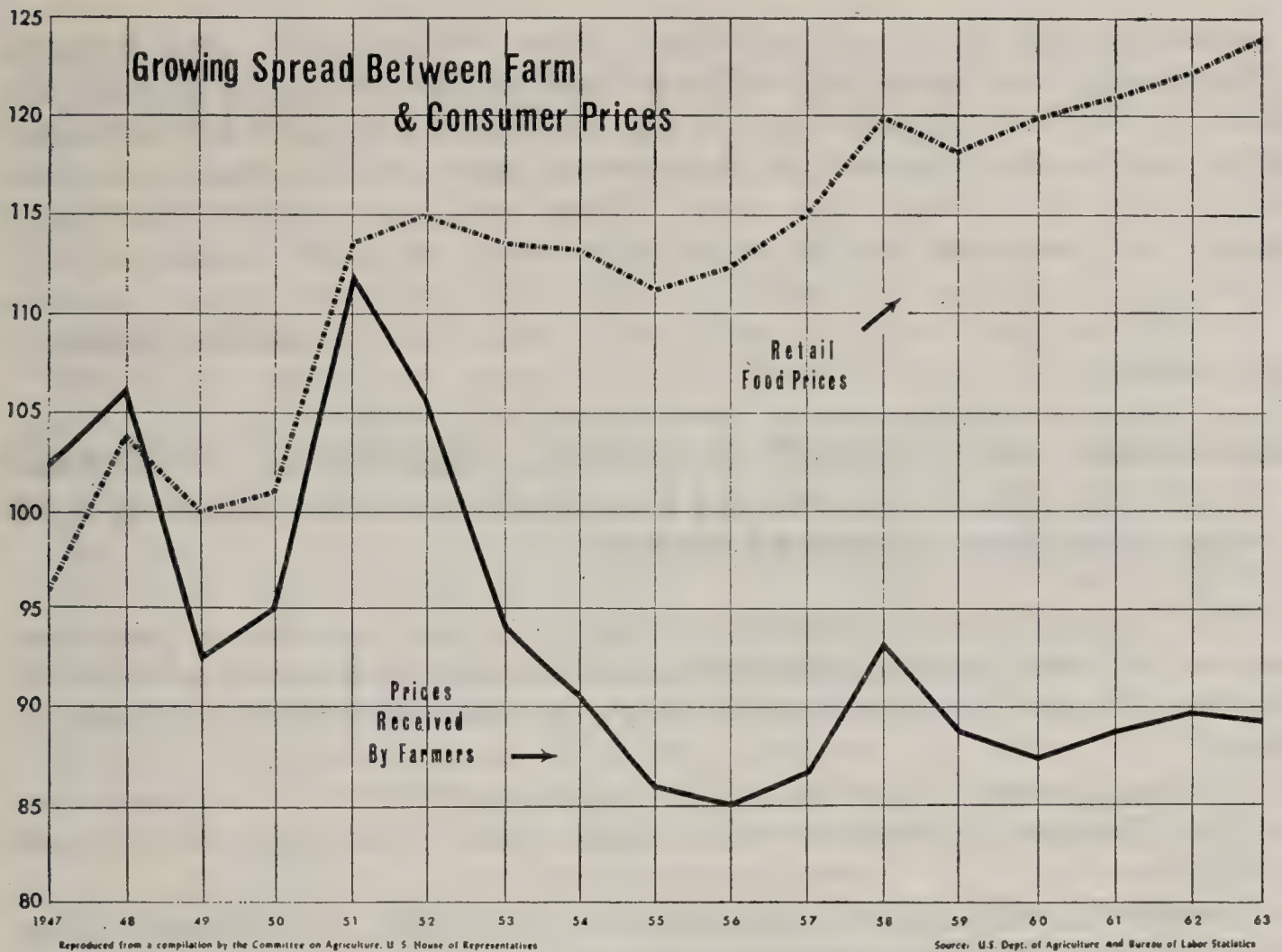
Recipient (amounts received to cover profits and costs, except for ingredients and purchases for resale)	1963	
	Actual amount	Percentage
	<i>Cents</i>	
Farmers.....	3.1	14
Grain elevators, transportation agencies, and processors of nonflour ingredients.....	1.5	7
Flour mills.....	1.0	5
Labor.....	6.2	29
Baker-wholesalers.....	5.6	26
Grocers.....	4.2	19
Total.....	21.6	100

TABLE 2.—Estimated wholesale costs spread and price for a 1-pound loaf of white bread in the United States, 1945, 1950, 1955, and 1963

Item	1945	1950	1955	1963
Operating costs and profits:				
Wages and salaries, including fringe benefits, social security tax, and officers' compensation.....	<i>Cents</i> 2.2	<i>Cents</i> 3.4	<i>Cents</i> 4.8	<i>Cents</i> 6.2
Packaging and wrapping material.....	.5	.8	1.1	1.4
Delivery other than wages and salaries.....	.4	.5	.8	1.1
Advertising, promotion, and products bought for resale.....	.0	.4	.7	.9
Other costs.....	.9	1.3	1.7	2.0
Profits (after tax).....	.2	.5	.4	.2
Baker-wholesaler margin.....	4.4	6.9	9.5	11.8
Ingredient costs.....	2.9	4.7	5.4	5.6
Sales (price at wholesale).....	7.3	11.6	14.9	17.4

TABLE 3.—Hourly earnings of bakery production workers, 1952–63

Year	Actual earnings including overtime	Index (1947–49=100)
1947–49.....	\$1.15	100
1952.....	1.43	124
1953.....	1.51	131
1954.....	1.60	139
1955.....	1.66	144
1956.....	1.74	151
1957.....	1.81	157
1958.....	1.90	165
1959.....	1.99	173
1960.....	2.09	182
1961.....	2.18	190
1962.....	2.26	197
1963.....	2.33	203



The Committee on Agriculture, U.S. House of Representatives Reports:

"Retail food prices have increased 29 percent in the past 16 years. Prices received by farmers have declined 12 percent."

"Last year the cost to consumers of farm-produced food totaled \$67.0 billion — up \$26.2 billion, or 64 percent, from

the 1947-49 average of \$40.8 billion; and that, of this \$26.2 billion increase in the cost of farm-produced foods, \$23.2 billion, or 88.5 percent, was absorbed by marketing agencies and processors — the middlemen. Only \$3.0 billion, or 11.5 percent, trickled back to the farmers."

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Mr. PATTON. It may be one of these other two people, Mr. Chairman, may have a comment.

The CHAIRMAN. I thought you would discuss the bill, any of the bills before us, that is what we would like to have you discuss, if you will.

What are the good features and the bad features. Anything you desire to say about the bills before us would, of course, be carefully received by this committee, because that is what we are going to have to act on if the bills are not now satisfactory. What should be done to improve them? That is what we are really looking for.

DAIRY PRODUCTS

Senator AIKEN. I would like to ask one question of any of them. I think you came out against authority in title VI to permit sale or lease of allotments.

Does that apply to wheat and feed grains only, because you also endorsed a base plan for class I milk and that bill as concocted in the House, I believe, provides for sale or lease of the bases for class I milk. I can conceive in my territory there would be very few people controlling the entire milk production industry in a short time if you permit the sale of the bases.

Mr. PATTON. Gilbert Rohde is here.

Senator AIKEN. I had somebody from your county tell me the other night that somebody sold a base on the farm in one of the Western States and got more for the base than the value of the farm. These people who buy up the bases sometimes are in a position where they don't care what they pay. They will pay twice what they would ever be worth to the owner in order to get control and perhaps take a tax deduction on them.

I would be glad to know what your comment is on selling bases or allotments.

STATEMENT OF GILBERT C. ROHDE, PRESIDENT, WISCONSIN FARMERS UNION, CHIPPEWA FALLS, WIS., ALSO REPRESENTING THE NATIONAL FARMERS UNION

Mr. ROHDE. Mr. Chairman, I have written testimony prepared here which can go into the record and I would like to talk about that portion of it which deals with dairy specifically since you brought it up.

Senator AIKEN. There is another point——

The CHAIRMAN. Senator Aiken had raised the point of the sale of allotments.

Senator AIKEN. Bases and allotments and also the House bill relating to class I milk provides that the vote on accepting or disapproving class I quotas shall be by individual farmers rather than by block voting as we have been used to.

It seems to me that is the entering wedge which doesn't bode very good for marketing orders or for farm organizations in the future.

Mr. ROHDE. This is true. We can agree with that.

We have discussed this many times on a policy level within our organization. The position we have taken in the past has been that we have favored block voting, although we wouldn't be adverse to those farmers and those individuals who might want to cast a single vote. There definitely are advantages in block voting.

When it comes to the sale of bases this is another matter. We have discussed this at some great length, too, within our policy committee sessions. All of us recognize that as soon as a base is allocated to an individual, that immediately it becomes part of the personal property and is capitalized into the original investment, and quite frequently in some of our other programs the bases are the most valuable thing that the farmer has.

When we start dealing with it in milk I would guess that we would certainly like to see provisions made, enacted into law, as to how those bases can be transferred. I would think that one good way would be for the Congress to specify that the bases perhaps should be under some measure of control other than the individual.

On the other hand, the criticisms of this approach are that it becomes political by nature, and so I guess we would have to leave it to the wisdom of the committee to provide for sufficient restraints in the reallocation of those bases.

Senator AIKEN. Yes.

But here is another feature of the House dairy bill which gives the producer-distributor virtually a free hand and I can just see where the distributors could become producers through the purchase of bases.

Mr. ROHDE. Yes, sir.

Senator AIKEN. Or leasing or purchasing the bases until the milk industry, both ends of it, falls into a very few hands.

It may be inevitable, and the trend is that way. I don't like it but I can't deny it.

Mr. ROHDE. We don't like it either. And my testimony deals with some of the shortcomings of the House bill.

Senator AIKEN. Yes.

When you know the producers and distributors don't have to pay into a pool under the marketing orders, your marketing orders could very likely go down the spout if you are not careful, as they have already done in the Chicago area.

Mr. ROHDE. One of the criticisms we have made, and we have made many with regard to the bases plan, we recognize its advantages but it has some definite shortcomings on the dairy side. Those of us who come from manufacturing milk areas which are traditionally low-cost producing areas of the country, we feel that under a Federal marketing order legislation that producers adjacent to the markets have been dealt with very generously and, of course, we are appealing for some kind of legislative help or machinery, whereby we could further stabilize our industry in the manufacturing area.

As Mr. Patton has already previously outlined he has given us, has given the committee, the recommendations with respect to dairying, and from this point on I could answer further questions that you might have on it.

The CHAIRMAN. What is your suggestion to accomplish what you are saying?

Mr. ROHDE. Well, specifically we would hope that the farm legislation, the agricultural bill of 1965, does include some provisions for dairying. Senate bill 1702 does not at this time. We would like to see the measure include a recognition of the continuation of the price-support authority with additional language there.

It only deals now with the adequacy of supply.

The Secretary takes this into account. But we think there are some other related factors that ought to be taken into account such as adequate reserves, farm income, and other related factors that might affect the level of income in the rural community.

Then, of course, No. 2, we would like the law to state specifically the authority for the manufacturing milk orders to have——

Senator AIKEN. I have been saying that for 20 years, that the dairy industry would be strengthened if manufacturing milk producers could have marketing orders.

Mr. ROHDE. This would permit classified pricing of milk. This would be a strengthening factor.

The CHAIRMAN. When you say "classified," you mean so much for whatever goes for ice cream?

Mr. ROHDE. Butter, cheese, powder, surplus.

The CHAIRMAN. Would you suggest a different price, let us say, for milk that is sold for powder milk as compared to ice cream?

Mr. ROHDE. Yes, sir. I think the provisions of a Federal Administrator for manufacturing milk marketing orders might be able to establish certain price levels, a different price level for the surplus

production incidentally that might be distributed through Public Law 480.

The CHAIRMAN. Wouldn't that be rather difficult to administer, to have so many classifications of milk?

Mr. ROHDE. I am not prepared to say at this time how difficult it would be to administer.

The CHAIRMAN. I might well see people might buy milk for certain purposes and use it for another unless you have a policeman there to watch them. The chances are that we won't get anywhere.

What is your view on the blended price of milk? If you recall, back in 1938 we enacted a bill here with the idea of trying to provide a fair price for milk that was used in direct consumption, that is class I milk. In order to attain that goal regulations were issued. The Secretary of Agriculture was to fix a minimum price for the milk that was going to be sold for direct consumption.

But here lately, when I say lately, I mean the last 10 years, we have had a system worked out whereby milk that is produced in these milk sheds now are supported in this way. They take the support price of the milk that goes for butter and cheese and other uses and add it to the price for direct consumption milk, and they divide it by two and that is the price of milk.

In Chicago, for instance, about 39 percent of the milk produced goes to direct consumption and the rest of it goes to the Government.

Mr. ROHDE. Or into the domestic market as manufactured milk.

The CHAIRMAN. Yes.

Now, it strikes me something ought to be done so as to compensate a milk producer for that part of his milk which is sold for direct consumption because I know that it costs a good deal more to produce that milk than it does to produce milk to make cheese or to make butter. And it would seem to me that something ought to be done to go back to the original concept of our milk laws passed back in 1938. Somehow the Department of Agriculture has never put this into effect as we intended. They say they lack authority, so I put in a bill to do just that.

I don't think there is as much opposition to it from the Department, and I would like to know what you think of it.

Mr. ROHDE. Senator, we have recognized these problems, too. We recognize that milk produced for human consumption or class A milk does cost more. We would like to call to your attention, though, the progress the great State of Wisconsin has made. We are now able to say we are a brucellosis-free State; this cost all our farmers a considerable amount of money.

The CHAIRMAN. It cost the Federal Government a considerable amount of money, too, we put up the money.

Mr. ROHDE. Yes. But in addition a great number of farmers in the Northwest would be able to produce this milk without additional costs on their farms. This part of the argument, perhaps, is not going to be as important in the future as it has been in the past, as our farms are modernizing and are mechanizing and they produce quality milk even though its use is for manufacturing.

But our principal concern is the fact that if there is going to be an economic advantage this advantage should not necessarily go to those people who by accident are closely adjacent to the principal market,

and that if milk of high quality is produced anywhere it ought to be able to move into the market and that producer ought to have an advantage of selling it there.

We had been considering and have compromised our position with respect to our opposition in class I and recognize there are valid arguments in support of your measure of the class I base excess bill.

However, we want to make sure that the language is not restricted with respect to entry, and the Senate committee last year did provide for access of new producers.

However, the present House bill language is not this explicit and we should like to call this to your attention. It would be most unfortunate if class I legislation were passed or included in the farm bill package with restrictions to entry from outside producers.

The CHAIRMAN. It would seem to me that something along that line ought to be done, that is give the farmer an advantage in the sale and production of milk for direct consumption.

Mr. ROHDE. Yes, sir.

The CHAIRMAN. That was our original intention.

Mr. ROHDE. Yes, sir; we agree that it was.

The CHAIRMAN. And it would seem to me the farmers, the dairy farmers, would end up with more money rather than this blended price, and the cost of this program would not be as great.

As I pointed out yesterday, do you know what the milk program cost in 1964, everything taken together?

Mr. ROHDE. Including school milk?

The CHAIRMAN. All of it.

Mr. ROHDE. Yes.

The CHAIRMAN. It cost about \$746.5 million, and that is why I am saying to you gentlemen that there is something wrong somewhere. The consumers in the big cities who now elect most of your representatives in the other House are not too well satisfied with all of this.

And as I said, if we could devise some way by which these smaller farmers could get a better price for the milk that they produce under sanitary conditions, they certainly would make more out of it than to try to produce all they can and sell it at this blended price.

Mr. ROHDE. We won't argue that point.

The CHAIRMAN. If you can make any suggestions now or before this record is closed on that point, this committee would appreciate it. As I said, something must be done in order to reduce the cost of these programs and try to make it possible to get more for the farmer in the marketplace. Here is a classic example where you could do it.

Mr. ROHDE. Yes, sir.

Senator AIKEN. Now that we have used up most of Mr. Rohde's statement, practically all of it, I would like to add one thing more.

I don't think that our producers would object to a uniform sanitary code for the production of milk. We wouldn't be on very strong grounds if your class A milk was produced under the same sanitary requirements as ours is and we opposed its moving from market to market.

However, the difficulty comes in that we can't produce enough of the grade A milk to supply the market without producing part of the year up to 50 percent of it that goes into manufacturing.

There is where the difficulty comes because so much of your manufacturing milk is produced under a different sanitary code that it gives you a considerable advantage over the eastern producer who produces all of his manufacturing milk under the same code as his class A milk.

Mr. ROHDE. Yes, sir.

Senator AIKEN. That is why, I think, we have got to pay more attention to the manufacturing angle and that is why I have hoped that we could have marketing orders perhaps for that.

I realize that there are complications. I have been working on them myself for 30 years and haven't found the complete answer yet. I don't suppose we ever will find it perfectly satisfactory.

Mr. ROHDE. It certainly would be an additional tool that would be helpful and I am quite certain that it would be helpful in the cost side of the program.

Senator AIKEN. In the meantime our population is increasing faster than the production of the butter and cheese which they require and the big dairy corporations have gone all over the world establishing competitive plants here and there. One dairy corporation has plants now, I think, in 60 different countries and if the condensed milk from this country gets too high, they will fill their orders from the Holland or Denmark factories.

Casein, for instance, is not produced at all in this country now. These dairy corporations fill all their orders from their foreign plants, and that is another situation we face, a worldwide competitive situation.

Mr. ROHDE. We have plowed the field as far as I am concerned.

(The prepared statement of Mr. Rohde follows:)

Chairman Ellender and members of the committee, I welcome this opportunity as a Farmers Union official and a dairy farmer to present my organization's position on dairy legislation at this hearing today.

Since no dairy section is included in Senate bill 1702, we appreciate the chairman's decision to expand the scope of the hearings to include testimony concerning dairy legislation.

Farmers Union has long recognized that a substantial portion of dairy farmers' income comes as a result of Government programs. Though price support programs are the major income-boosting factor through Federal action, we do not overlook the beneficial income effects of the Federal programs that increase consumption of milk and its products.

At the annual convention of National Farmers Union, March 14-18, in Chicago, Ill., delegates adopted the following recommendations concerning dairy policy:

"1. Continue present price support authority and vest the Secretary of Agriculture with power to use supply, demand, adequate reserves, farm income, and related factors for the purpose of achieving parity of income levels for commercial family farmers.

"2. Authorize the establishment of Federal orders for manufacturing milk which permits classified pricing of milk used in manufactured products, and also authorize use of direct payments where necessary to effect parity of income for commercial family farmers while stimulating the distribution of consumption of any one or all of these products.

"3. Amendment of Public Law 480 to permit purchase by the Government of dry milk, butter, and cheese without regard to supply or market price."

On the matter of utilization, Farmers Union has been, throughout the years, a strong advocate of such programs as the food stamp program, direct food distribution, school lunch and milk programs, and the food-for-peace program which have materially increased the consumption of milk and its related products. We firmly believe that we should do a great deal more to use our food abundance, including dairy products, to alleviate poverty and need of people at home and abroad.

Delegates at our national convention paid particular attention to improved milk pricing in the manufacturing milk sector because Farmers Union is dedicated to unifying both manufacturing and market order areas in behalf of a national dairy program. We believe the stress in Congress of late has been put on market order programs and very little on manufacturing milk programs where dairy income is lowest.

Since this committee and the Senate last year approved class I base legislation and since the House Dairy and Poultry Subcommittee has recently approved a similar measure we would like to use the remainder of our testimony for a consideration of this proposal.

We have appeared at several congressional hearings in the past to testify against legislation to set up a class I base plan in the Federal marketing order areas. We based our opposition on two principal objections to the plan: (1) We argued that the plan by dividing the Federal order market through producer quotas would restrict freedom of entry to outside producers; and (2) we testified that producers of manufacturing milk, the lowest paid in the industry, would be adversely affected by legislation which would primarily benefit producers who had already achieved considerable marketing power through Federal orders.

As we have said on numerous occasions, we are willing to compromise our differences and in that spirit we express our reservations to the class I plan as approved by the Senate a year ago and make the following observations concerning the Federal milk order system in its relationship to the remainder of the dairy industry.

In 1962, a Federal Milk Order Study Committee, composed of 18 dairy specialists, compiled a comprehensive report to the Secretary of Agriculture, analyzing the Federal milk order program. It listed among the major objectives of the order system the following objective: "To administer and supervise the terms of trade in defined milk markets in such a manner as to equalize the market power of buyers and sellers and attain reasonable competition but not local monopoly resulting in undue price enhancement."

In its recommendations to the Secretary, the Committee went on to say: "In general, the Committee favors a policy of relatively free entry of qualified milk suppliers to Federal order markets and to Federal order pools." Yet under the the language of H.R. 3609, outside producers can obtain a class I base only if total class I sales in the market expand and then only to the extent of some share of the amount of the expansion in sales. We believe these restrictions go beyond the Committee's stated recognition of the "need for reasonable restraints to insure orderly adjustments and to protect the producers and handlers whose milk is fully priced and pooled from unfair disruptive competition."

We believe another recommendation of the Committee is pertinent to this discussion. It went as follows: "We believe that the Secretary must exercise care to avoid short-run partisan positions in the interests of fluid milk producers as may run counter to other dairy interests of the general economy, or the long-run interests of the fluid milk producer himself. Traditionally, the order program has dealt most directly with market milk problems. The growing inter-relationship between market milk and manufacturing milk segments now mandate extreme care to avoid arbitrary decisions in the market milk sector which may work hardships on the manufacturing sector."

Since the institution of the price support program for manufacturing milk, the margin between class I prices and manufacturing milk prices has increased substantially as the consequence of two price enhancement effects: (1) The effect of the price support program in order areas where class I prices are tied to manufacturing milk prices and (2) the effect of increasing prices of fluid milk relative to prices of manufacturing milk. We suspect that the enactment of the class I base plan would widen the margin between class I and prices and manufacturing milk prices even further as a third price enhancement effect would be introduced—the class I base.

We have dwelt at length on the report of the Federal Milk Order Study Committee not as a source for negative arguments but as a basis for constructive action. For it should be noted here that the Committee reported favorably on producer base programs. The Committee recognized the surplus problem in Federal order markets arising from (1) the reduction of price and income hazards under orders, (2) the maintenance of milk prices above supply-demand levels through support purchases and (3) blend pricing which in effect encourages producers to deliver milk to an oversupplied market at an average price which is higher than the surplus price.

"Producers in such markets," the Committee stated, "may wish, as a group, to take steps to bring a better balance between fluid market needs and market supplies through producer base programs."

We do not argue the Committee's suggestion. However, we do feel that proponents of class I base legislation, though quick to follow the Committee's lead, have ignored many of the other issues raised by the Committee which we have outlined in our testimony. In conclusion, we wish to recommend that the Committee's report be used as a guideline for strengthening the class I base legislation now before Congress.

Mr. PATTON. Mr. Chairman, going specifically to the points, I will ask Mr. Smith or Mr. Byrne or Mr. Schmidt to speak for 5-year program for grains and feed since these are some of the specifics we are recommending in relation to the bill.

The CHAIRMAN. Is that all you have to offer for dairying? Anything else?

Senator YOUNG. He used the farm expression, he plowed the field.

FEED GRAINS

The CHAIRMAN. All right, sir.

STATEMENT OF LAIL SCHMIDT, PRESIDENT, ROCKY MOUNTAIN FARMERS UNION, DENVER, COLO., ALSO REPRESENTING THE NATIONAL FARMERS UNION

Mr. SCHMIDT. Thank you, Mr. Chairman, and distinguished members of the Committee. I just want to briefly outline my position. I am a producer of feed grains, wheat, and livestock, and I want to combine these three in my brief remarks.

We support the feed grain program extension for 5 years with the idea that it move forward to eventually achieve parity.

I am aware of what you have stated earlier, Mr. Chairman, of the extent of these different programs and in the feed grain category. I would like to say that when we look at the expense of the feed grain program we need to take into account and keep in consideration that this also covers the livestock industry because this is one of the greatest bolsters of livestock prices, the relation of feed grain that goes into the production of livestock.

So, we have to keep this in view when we talk about the cost of the feed grain program.

I am talking now as a producer of both, and I am well aware and very familiar with the effect that the price of feed grain has in relationship to the production of livestock products. So, I think we should keep that in account.

I was also very interested, Mr. Chairman, that you are so interested in the well-being of displacement of agricultural producers. This is a very vital thing to me because I am one of those producers myself and I am concerned as to whether I am going to stay in the business or am not, and I am talking very frankly at this point.

Our credit is fast diminishing, and I need not belabor you gentlemen because you know it inside out and forward and backward, but the only thing that has kept me as a producer in the production business is my increase in land values, because I have had to draw on this resource continually in order to maintain my status, because my indebtedness has constantly increased.

I have not been able to reduce this in the production field.

So, this is alarming to me, what is going to happen when I reach this spectrum of where I no longer have this resource, Senator Young, to draw on, my capital investment by increased values?

This is of a concern to me and many of us in the production field at this point.

In the State of Colorado, Mr. Chairman, the last 5 years we have lost 7,000 farmers. This is one State I represent in Rocky Mountain, Colorado, Wyoming, and New Mexico, and this same pattern is over all three States and I have had some people to say, well, that was a case of eliminating the inefficient farmer back at the beginning of this period that the census was taken.

But I would like to say this is not true because in the year 1964, according to our last census, in the State of Colorado we lost 1,000 farmers, so this hasn't stopped. It is continuing on, and my prediction is that in the year 1965 without a drastic change in the income factor to agriculture it is going to be a comparable number to 1964.

So, this is of vital interest to me as a producer, because when is my turn going to come that I no longer can stay in this field and then what field am I going to go into?

The already overcrowded labor market in the city, I would be at a tremendous handicap, so I am very interested in your remarks. This is very enlightening to me to know that you are considering this.

Now, going into, you asked about, the specific bills that are now in the agenda——

Senator YOUNG. I was very interested in your comments because this is the same information I receive from the farmers in North Dakota. The rising costs of operation are squeezing the farmers badly, and there isn't any end to these cost increases in sight, is there? This is what is really hurting farmers.

Mr. SCHMIDT. This is right.

Senator YOUNG. Farmers today are trying to operate on the same prices they got for their commodities 20 years ago while the costs of operation have gone up two and three times.

Mr. SCHMIDT. This is right, Senator. Nobody can dispute this.

Going back to what you just brought out, we had a meeting in Colorado not too long ago, some 2 weeks ago, where the bankers, the PCA people, the Farmers Home people, all media of credit to agriculture, were brought together and sat around a table such as we are here, and the worry of all of these people in this credit field is the same thing.

Now one after the other went around the table and said, "Well, we are right up to the limit on our lending ability. We can't turn loose and we can't go on with this producer. What are we going to do?"

So, they are in the same dilemma, and I might tell you very frankly they are quite concerned as to where they stand in this economic spectrum as to how long and what are they going to do.

Take my own case. If my banker would say, "Next week I can't go with you any longer, Mr. Schmidt," what is he going to do with what I already have? How is he going to get out of this? He is at this point of no return and this is why he is quite concerned but I am

very enlightened and I am very happy that you, Mr. Chairman and you distinguished gentlemen, are aware of this and are disturbed by it because this being the case, I am encouraged that with your knowledge and ability and the different things that you have that you can move on these things that you are going to do something about it, because Lord only knows, as you have already stated, Mr. Chairman, one of the most important industries we have in this country is agriculture, and once it folds where do we go?

I want to bring this out: once we have reached this limit that we have been operating on in increased assets and land value, once we have reached this, Senator Young, and you and I have talked about this before, once we have reached this, and this starts to knock them off as you would knock down tenpins or something like that, lo and behold, what is going to happen to the economic status of this entire economy?

This is something that we have got to face up to, and we are, in my opinion, verging that climax right now.

Going back to these programs and I don't want to take too much time because I have some gentlemen with me from the three respective States I want to call on a little later for brief remarks, but going back to the bills that are now in the mill, I would have to say that I strongly favor Senator Young's bill.

Senator YOUNG. Thank you.

Mr. SCHMIDT. And you know why? Because this is more income to me as a producer, and I couldn't do anything else, Senator Young, but support you on it.

Senator YOUNG. Thank you.

Mr. SCHMIDT. And this is where I stand as a producer today.

WHEAT

The CHAIRMAN. Will you state for the record, if you will, the difference between the administration bill and the Young bill that you speak of? What is unique in his bill in contrast to what is in the administration bill?

Mr. SCHMIDT. More income.

The CHAIRMAN. I say but how is it obtained?

Mr. SCHMIDT. Well, what the specifics are in this I haven't had the chance to analyze this as to how you arrive at this. It seems to me, though, from what I know about it it is much simpler to administer also. But I couldn't say this because I haven't analyzed it.

Senator YOUNG. Mr. Chairman, the mechanics of my proposal are much the same as under the administration's wheat program.

The one major difference is that the administration bill would give farmers up to 100 percent of parity for that portion of their wheat consumed in the United States. They would receive the world price for the balance.

My bill would assure farmers at least \$2 a bushel blended price support for his normal production as against about \$1.82 under the administration's proposal.

The CHAIRMAN. On all he produces?

Senator YOUNG. Just on his normal production.

The CHAIRMAN. Yes, but I mean on all the land he plants? He would be assured this price, through production payments, on the production from his entire allotment?

Senator YOUNG. Whatever his average yield had been over a 3- to 5-year period. The price support would be virtually the same under both plans. Under my bill, the minimum support level is 50 percent of parity or the 3-year average of the world price, whichever was higher. Farmers would be paid the difference between this and \$2.00 a bushel through production payments. Most of funds for these payments would come from the sale of wheat certificates, although part of it might have to come out of the CCC.

The CHAIRMAN. As I understand your bill would cost the Government around \$200 million, a little over \$200 million more than the administration bill.

Senator YOUNG. I think the study, Mr. Chairman, that we requested yesterday will show some different figures. They have various types of figures they use for presenting different bills but when we get the new figures we will find they are different.

The CHAIRMAN. We have asked for these figures and, of course, they will be available before all of us.

Mr. PATTON. We have asked for them but we have been told, Mr. Chairman, they are classified. I hope you declassify it.

Senator AIKEN. When they classify something it means they either don't know or they made a mistake. [Laughter.]

The CHAIRMAN. Now, that goes back to the proposition that it is difficult to enact any legislation that will be more costly to the taxpayers. You see, if we are able to have suggestions from you as to how we could do that in the marketplace without getting the Government into it and the taxpayers into it, why we might be able to do a better job and one in which we would have a better chance to enact.

Mr. SCHMIDT. Mr. Chairman, I have some deep feelings on this as an individual, and I am aware what you are saying is true, that which built up this cloak of cost to Government. But I wonder if we have done our homework, so to speak, in the country or elsewhere, in relation to what this cost might have versus a collapse of this industry, and I think this is the thing we are going to have to face up to. We have kind of, in my opinion, as an individual, brought this out that the taxpayer, we have our hand in his pocket. But as long, to me, as long as I am producing below the cost of production I don't have my hand in anybody's pocket, somebody has their hand in my pocket. This is the way I look at it, and it is a means of this taxpayer or the public, whatever you want to call him, whether he has got it in my pocket in one direction or another.

When he wants to give me the cost of production and a livelihood out of the services I render in producing this food and fiber, I will not need the tax dollar any longer.

This is the way I look at it as an individual.

Until we reach that point, we are going to have to rely and draw on some other means in order to stay in the business and maintain a livelihood.

The CHAIRMAN. We have been going that route for quite some time and we would like to veer away from it. But instead of veering away from it we are getting deeper and deeper into it.

Take your corn program, for instance: as I pointed out yesterday you want to renew that for 5 years. What brought the program along is the fact we had 84 million tons of surplus. All right. Over the last 4 years we reduced this surplus by only 28 million tons. You know what the cost was? Five billion four hundred million dollars or about \$6 a bushel.

You tell that to the people here the city boys, and the taxpayers——

Mr. SCHMIDT. I would like to enter right here, Mr. Chairman, that I want to compliment the Senate on what they did when they set up the Food Study Commission. I think this is going to bring some light on the thing that we are trying to arrive at here, because too many times when the price of a commodity rises this is reflected two and three times to the consumer of what we are actually receiving, so I think maybe we are going to get at the thing that we are arriving at here as justifications for these things.

The CHAIRMAN. But this Commission will not report until next year, late next year. I don't want to try to exaggerate things here by any means. The Department is going to furnish us with the facts and figures that I am now relating to you. As I recall, the Report of Financial Condition of the CCC for June 30, 1964, shows the overall cost of the farm program since 1933 amounting to about \$41.8 billion, you see, and wheat accounted for about \$13.1 billion dollars.

Senator YOUNG. Mr. Chairman, the costs of the wheat programs have gone down considerably in recent years.

The CHAIRMAN. Oh yes, under this new program, yes.

Senator YOUNG. Really we face a different situation with wheat than with any other commodity. Over half of it has to be exported and we are locked out of the dollar markets of all the big Communist countries whereas Canada has access to all of these.

So, we have a real problem of survival under all the restrictions placed upon us.

The CHAIRMAN. I realize that. Rice in the same situation. Corn is the only one not exported in great amounts. I realize that, Senator. But I am simply bringing to this committee and to the gentlemen around the table who are offering testimony what we face in the Congress. It is not what we want to do but what we face.

Mr. PATTON. Mr. Chairman.

The CHAIRMAN. Yes, Mr. Patton.

Mr. PATTON. As to these further specifics in relation to the administration bill, we have proposed at least a 25-cent-per-bushel export certificate and I would like to ask Mr. Byrne to comment on that. I am trying to get to your request that we deal in specifics here in relation to this legislation.

The CHAIRMAN. That means world price plus 25 cents?

Mr. PATTON. Right, that is right.

The CHAIRMAN. And you want to add that to the administration bill?

Mr. PATTON. To the administration bill or take the Young bill, we like the Young bill very much. The addition of the 25 cents certificate on exported wheat we think would bring us up somewhere around to where we need to be to get a fair price. But Martin Byrne will tell you that.

The CHAIRMAN. Would you tell us, Mr. Byrne, at the outset, if you can, what would be the average amount received by farmers for the wheat he produces on his allotted acres should this 25 cents be added to the world price?

STATEMENT OF MARTIN J. BYRNE, PRESIDENT, KANSAS FARMERS UNION, TOPEKA, KANS., ALSO REPRESENTING THE NATIONAL FARMERS UNION

Mr. BYRNE. It would be on the normal production, it would be about a dollar ninety cents, I believe.

The CHAIRMAN. What?

Mr. BYRNE. About \$1.90.

The CHAIRMAN. That would be for all he produces on allotted acres?

Mr. BYRNE. Yes, his normal production on allotted acres. It would be a little more than \$1.90.

The CHAIRMAN. Have you figured how much that would add to the cost of the administration's bill?

Mr. BYRNE. It would roughly be between \$150 and \$200 million.

The CHAIRMAN. \$200 million?

Mr. BYRNE. Yes. Something under that amount.

Our premise on that, Senator, is severalfold.

One, if I may refer to my own State for a moment.

The CHAIRMAN. Yes, sir; we want all the light you can shed.

Mr. BYRNE. Just 5 cents a bushel on a fairly normal Kansas wheat crop is the same thing, 5 cents more a bushel is the same thing, as bringing into the State an industry that will employ 2,000 men at \$5,000 a year; 20 cents a bushel is the same thing as an 8,000-man industry at \$5,000 a year. A price drop has the same reflection, the same result.

The certificate plan is very appealing to us, especially in a wheat State and to the Farmers Union because it is automatic. Once it is enacted and it is kept enacted and it is kept going it is automatic. It shows for a group of widely dispersed producers what closely knit producers can do in the market by their own market when having their own supplies.

Therefore, we feel that the use of the certificate plan has taken the weight of a great deal of cost off from the Government starting back with the beginning of the certificate plan a year ago and again, as we think in terms of this bill, where we transfer all of the cost, with the exception of possible administration, over to the certificate plan, where it will be transferred on to the consumers, that the combination of the two, what has been saved and what will be saved, would compensate for the use of at least a 25-cent-per-bushel certificate on that share of the market that would be exported.

The CHAIRMAN. How about that share that is used for grain and feed?

Mr. BYRNE. No. I don't think we would want to use the export—the way we talk about in the country is the 35 percent and the 40 percent, 35 percent of normal.

I think that is one of the things we have to defend. I think it is one of the things we have to explain and, Senator Aiken, I appreciate your speech that Senator Pearson got to me to use to the city groups

on the importance of agriculture. You had a lot of homework on that but I think we have the job of explaining that any time we take money out of the Treasury, and it isn't always easy to do, that that is insurance to the consumer, and the policies that we adopted have proven so beneficial to the consumer that we have widely dispersed family type farms in this country where there is very little, if any, opportunity for monopoly.

Senator AIKEN. The difficulty I find with my speeches on the floor of the Senate is they usually go to the people who need them least.

Mr. BYRNE. I went to a few Rotary Clubs.

Senator AIKEN. And the ones who need them most never get them.

Mr. BYRNE. So with that background, why we feel that 25 cents per bushel on export certificates or the 35 percent of the market as we think of it, would be justifiable.

I would like to address myself for just a moment to why we believe so strongly in a 5-year program, especially on wheat, which I am much more knowledgeable about than I am on feed grains and probably not too knowledgeable on wheat.

Senator ELLENDER. I was at the field hearing in Grand Forks as a spectator in 1937, when you were there.

The CHAIRMAN. Yes.

Mr. BYRNE. I guess everybody there who testified thought they had some answers at that time and I think they did. That was a good bill.

The CHAIRMAN. It was the first year I was in the Senate.

Mr. BYRNE. Yes; I just tied that up when you mentioned 1937, that was a good hearing, lots of fire.

The 5-year program for wheat and feed grains, but specifically on wheat, at this moment, because the Government has become a factor in the whole scheme of farming in the Middle West and I presume all over the country, but at least where I am familiar with, and with the investment that is involved today, and the machinery we have to use to raise wheat, a farmer just about has to know what the factor of Government is going to be 4 and 5 years down the road, and the relationship of commodities one to the other in the investments that he has to make.

So for that reason, we would like to see a 5-year program, because it would fit much better into the planning of our operations out on the farm, than a shorter term program does.

Senator AIKEN. You understand, don't you, that a farm program that lasts 5 years is more than permanent; it would be practically eternal. [Laughter.]

The CHAIRMAN. Now you want to have the wheat program to remain more or less on a voluntary basis because I think it was made clear here yesterday that if the wheat program were again submitted to the wheat growers it would not receive the necessary two-thirds of the farmers to vote for it.

So, that your wheat program is more or less a voluntary program.

Mr. BYRNE. That is right, Senator.

The CHAIRMAN. Now, by raising the price of wheat to the extent that you are proposing, what effect would that have on the price of those who are not under the program and who desire to plant all they desire, all they want?

Mr. BYRNE. This, that we recommended, Senator, would leave them in the same position as if there were no value on the export certificate because they would have to be in compliance to pick up both the domestic and the export certificate at the office and if they were out of compliance then, of course, they could pick up neither certificate.

The CHAIRMAN. That is right, and they would have to sell at the going price.

Mr. BYRNE. There would be no tendency that I can see to bull the cash market.

The CHAIRMAN. Yes.

Do you think if we should include such a provision that it would more or less force all wheatgrowers to come into the program?

Mr. BYRNE. I think it would be moving to that direction.

The CHAIRMAN. Yes.

Mr. BYRNE. Let me say parenthetically that the certificate plan is a new plan. I realize it has been in Washington for years, back in the McNary-Haugen days my dad used to talk about it but to the operating farmer it is something new and when he voted on that, together with a great deal of partial facts and no facts and misinformation why it was voted down.

We now are going through an educational process and he is voting each time he goes in and says he is going to comply. But a few years ago, I think a certificate plan is practical enough and workable enough, in a few more years, if it is necessary to have a referendum, to put, what I call for want of a better term to put, a mandatory program into effect then I think it will pass, so we can, with the combination of what I see domestic certificates and export certificates and the moving of supply closer to demand, that we can automatically move much closer, as close as you can, with widely dispersed producers on family type farms, and that is the policy we decided a hundred years ago to do it that way, I am sure partially so we won't have monopoly in food production that we come as close as we can to automatically getting our price with the combination of support and certificates in the marketplace.

The CHAIRMAN. You see, your suggestion, of course, is a deviation——

Mr. BYRNE. Yes.

The CHAIRMAN (continuing). From the original two-price system that was talked about 30 years ago.

Mr. BYRNE. That is right.

The CHAIRMAN. And in that you want to add this 25 cents per bushel to the production that goes abroad?

Mr. BYRNE. Yes, sir; the 35 percent.

The CHAIRMAN. I understand. That is, that would make the program more costly and what worries me is what can we do about it with the House.

Mr. BYRNE. Yes.

The CHAIRMAN. As well as the Senate, of course.

Mr. BYRNE. Yes.

Senator YOUNG. Martin, I think your figures regarding the additional costs of continuing the export certificate were a little high.

What did you say an export certificate of 25 cents a bushel would cost?

Mr. BYRNE. Twenty-five cents, estimated \$400 million. I could be wrong.

Senator YOUNG. You estimate the cost of this to be \$400 million. Our highest annual export level was 800 million bushels last year, and we are not expected to get much over 600 million bushels this year.

Mr. BYRNE. About \$200 million.

Senator YOUNG. That would be the cost of the export certificate?

The CHAIRMAN. Yes.

CROPLAND ADJUSTMENT

Mr. PATTON. Mr. Chairman, the next item in specifics in relation to the amendments of title V cropland retirement, and striking out the authority of title VI which deals with the question Senator Aiken asked in general, permitting sale or lease of allotments, Mr. Berck, of Nebraska, will speak on that specifically.

The CHAIRMAN. All right, Mr. Berck.

STATEMENT OF ELTON L. BERCK, PRESIDENT, NEBRASKA FARMERS UNION, OMAHA, NEBR., ALSO REPRESENTING THE NATIONAL FARMERS UNION

Mr. BERCK. Mr. Chairman and members of the committee, before I go into specific details I would refer you to a copy of my statement which I think you have in your possession in general on——

The CHAIRMAN. The copy of the statement will be placed in the record and you can highlight it for us.

Mr. BERCK. Right.

Before I begin my few brief remarks, I would like to call your attention to an article in the current issue of the U.S. News & World Report. I think it is pertinent to this discussion because the article deals with the possibility of the Nation experiencing in 1965 the same sort of economic disaster that occurred back in 1929, and of the 10 or 12 factors related by the author of the article which would prevent such a happening again, he states the farm support price system as being one of the bulwarks of the economy, and it is very interesting, I think, and pertinent to this discussion.

He goes on to say there was little or no protection to farmers against collapse in 1929; they were at the mercy of the marketplace with no system of price support. Farmers saw prices fall 65 percent. Now he goes on to say prices of major farm commodities are supported by the Government and there is not the possibility of this disastrous price drop.

In other words, the farm price support program is a supporter of the general economy and protector against financial disaster and in the light of this I think we need to be concerned somewhat with the consumer reaction.

The CHAIRMAN. Well, we have enacted laws that would make the situation that developed in 1929 almost impossible to develop again. We have guarantees of deposits, social security and things of that kind, but we are not here to argue that now. We would like to get to the farm problem.

Mr. BERCK. As I say, this is one point, one of the foundation stones, in the farm products that the author sees as a protection in a future disaster.

I refer in my statement there of a study made in a report sometime back for the Committee for Economic Development, U.S. Chamber of Commerce, you will recall I am sure, for something they made in the line of a massive land retirement program, the arbitrary removal of some 2 million farmers from the land.

At that time the University of Nebraska had one of their top economists make a study of the effect on the State of Nebraska and since it is pertinent to this discussion of the massive land retirement program I do refer to this in my statement.

At that time the economist who was referring to the 1959 agricultural report of conditions said that it would place, this massive land retirement program proposed by the Committee for Economic Development would put, 20 percent of Nebraska's population on the rolls of the unemployed.

This would include farm population and the city-rural population who supported in turn the demands of the farm population, 20 percent of the population of the State of Nebraska would be forced to unemployment.

This is one of the things we fear about a massive land retirement program. The fact that it does denude the rural community of its source of support, it destroys not only the jobs of agriculture, it destroys the jobs of the supporting population who fill in the needs of agriculture.

And there is a good question, too, in our minds that in case of a national disaster if this land were needed for production how you would throw it back into production if you have removed arbitrarily the work force which would put this land into production.

I think this is a part of national defense that we need consider in connection with this farm program.

TRANSFER OF ALLOTMENTS

We also have a definite position in relationship to the transfer or sale of allotments. We would believe, I believe Senator Aiken mentioned a minute ago the possibility of these allotments getting into the hands of a large combine which would be the direct opposite of our position to support the family farmers as the bulwark of the Nation's economy.

These are the reasons why we, briefly, why we are opposed to these sections of the program. We are opposed to the massive land retirement program, retirement of whole farms and we are opposed to the transfer by sale or transfer or otherwise of the allotment.

The CHAIRMAN. Is it your view that if we permit the sale and transfer on a permanent basis of allotments it might result in a greater reduction in the number of farms throughout the country?

Mr. BERCK. Exactly, sir.

The CHAIRMAN. That is one of the reasons I presume that you advance?

Mr. BERCK. Yes, sir.

The CHAIRMAN. All right.

Any question?

Is there anything else?

Senator AIKEN. I think that is a good statement.

(Mr. Berck's prepared statement follows:)

Mr. Chairman and members of the committee, I am Elton L. Berck, president of the Farmers Union of Nebraska.

S. 1702 sets forth objectives which have in large degree provided the motivation for Farmers Union action in Nebraska throughout the half century of our corporate existence as a State family farmer organization.

In the earlier days our efforts to improve farm income and provide greater economic opportunity for rural people resulted in the formation of hundreds of farmer-owned cooperative enterprises.

From the marketing and processing of farm products to the procurement of farm supplies, from the organization of small local associations to the building of giant regional cooperatives, we have ably demonstrated the Farmers Union philosophy that the place to begin in improving farm income is with these self help, locally owned and controlled farm bargaining institutions. We have not exhausted the possibilities that come within the scope of this type of farmer action. We have, however, come to realize that many of the problems facing farmers and all of rural America must look for solutions outside of the farm or rural sector of our society.

Our farmers have demonstrated their willingness, yes even eagerness, to accept new techniques and processes. They have not only accepted new ways but have provided in many cases the stimulus which pressed researchers forward in their efforts to provide new and more productive species of plants and animals.

Having demonstrated the ability to utilize these new steps toward a more productive agriculture they now find themselves with an abundance of products for which there are limited markets and the limits are imposed by forces which are for the most part outside of their area of influence.

Farmers do not have the organizational strength to deal successfully with this problem. The farm cooperative, magnificent as it is, must work within a price structure established by supply of product while it has neither the authorities or mechanics to control that supply.

These factors would affect in the same degree any other group effort that farmers might mount to hold supplies at profitable price levels. While farmers, hard pressed by economic disadvantage, continue to discuss and promote the idea that they can indeed organize to control supply, there is no indication that they have such authority in the main either to control supply or set price or withhold food from the market place in order to force higher price levels.

In frankness, we must question whether it would be in the best interests of our national security to either permit situations to develop under which farm producers might plan and implement a program of food scarcity, or provide farmers with the statutory authority to accomplish these results without some degree of governmental supervision.

The need to assure adequate supplies of agricultural commodities is set forth, wisely we think, as a policy of the Congress in S. 1702 as it has been in many other such proposals and statutory enactments. This implies some form of Federal intervention in the agricultural economy and it is difficult to find fault with the philosophy or quarrel with the objective.

These are basically the considerations that brought the Farmers Union of Nebraska to the point of active support for Federal legislative action designed to do these things for farmers that they were unable to accomplish effectively through their own efforts.

We do associate ourselves with the several Farmers Union States and the National Farmers Union in the appeal for Federal programs which propose to aid farmers in realization of farm family income that is equitable with the income enjoyed by nonfarm segments of our economy.

In a specific pronouncement adopted by our delegate body in February of this year we announced that "we support Federal legislation along the lines of the current wheat and feed grains programs however we believe that full parity, not partial parity for agricultural basic crops would protect and stabilize all agricultural production and benefit industry and labor as well as agriculture." Our policy statement continued as follows:

"The Farmers Union of Nebraska firmly believes that a sound national program for wheat and feed grains is a great necessity to stabilize the economy of these basic commodities. If it should take a subsidy to accomplish this, it definitely qualifies as an economically sound undertaking because the benefits

produced greatly exceed the cost. The benefits of this to our farming industry are so important to the public's interest that it warrants the use of public funds. It should contain the following principles:

"1. We favor a simple, voluntary program with a parity of income return to the farmer program cooperator.

"2. We recommend the establishment of a national strategic food reserve be implemented. Specifically, this recommendation favors the retention of 630 million bushels of wheat and 45 million tons of feed grains for national use in case of emergency. We definitely believe that the maintenance cost of such a reserve should be charged to national defense rather than to Agriculture and that the reserve should be isolated from normal market channels.

"3. Whereas, the present wheat and feed-grain program with a lower support price and certificates to help maintain prices to the cooperator, is the only wheat program that we have had that definitely cut our excess stored grain and excess production. It is also the only program that benefits the cooperator more than the noncooperator. We favor an extension of a certificate program similar to the 1965 wheat program for a period not less than 4 or 5 years with modification to improve grower income to full parity on normal yields.

"4. In any farm program we favor the substitution clause.

"5. We favor the continuation of the feed-grain program but with modification to attain parity of income starting in the year 1966.

"6. We recommend that farm storage be utilized fully. To accomplish this we urge continuation of (1) farm storage facility loans; (2) accelerated depletion schedules; (3) resealing program * * *.

"9. We urge the continuation of the Public Law 480 program with recommendations that farm commodities not in surplus be included and that the cost of this program should not be charged to the USDA."

We also have a firm policy position which opposes sale or transfer of acreage quotas and allotments and we are on record in opposition to land retirement programs which would retire whole farms from production.

The opinions we have voiced are not new, they have been stated many times, but they are important because they do represent a basic philosophy which we feel cannot be safely ignored. We well know that there are differing viewpoints and that alternate programs have been proposed.

Several years ago the farm community was shocked by the Committee for Economic Development. The proposals suggested a gradual reduction with final complete elimination of farm support price programs. They also suggested a massive reduction of the farm labor force, a permanent retirement from production of agricultural lands, and elimination of Government controls over production and marketing. At that time an economist on the staff of the University of Nebraska, College of Agriculture was asked to make an evaluation of the impact of the Committee for Economic Development proposals on the Nebraska economy. On the basis of the 1959 farm census the economist, Dr. Lloyd K. Fischer, reported that if the Committee for Economic Development proposals were fully adopted and implemented as a national policy, 20 percent of the total population of Nebraska would be faced with unemployment and the need to look elsewhere for the means of a livelihood. Furthermore, in Dr. Fischer's projections, total realized net farm income in Nebraska in 1967 would be reduced some 40 percent below the 1961 level. We would suggest that if these findings are anywhere near accurate, the enhancement of farm purchasing power and maintenance of farm employment carry fringe benefits for the nonfarm sector of our economy that should be more than ample to justify needed Federal expenditures for farm programs.

Agriculture is Nebraska's greatest industry. Cash income to Nebraska farms and ranches has averaged well over \$1 billion over the past decade. About two-thirds of this amount is also paid out annually in operating costs for purchases of good and services. Suppliers of these goods and services are an important part of the State's agricultural production system.

We have endeavored to point out the reasons why we feel that Federal price support and supply management programs for basic crops are necessary. We strongly urge continuation and strengthening of such programs.

In summary, the Farmers Union of Nebraska supports in principle, the passage of S. 1702. We do make certain specific exceptions to the bill as noted in our previous reference to sale or transfer of allotments as proposed under title VI, and cropland adjustment under title V. We would also specifically approve the amendment proposed by National Farmers Union with respect to sales of wheat

from Commodity Credit Corporation stocks which amendment proposes that such sales be made at not less than 10 percent of the loan rate.

We sincerely appreciate the opportunity to present the views of our organization concerning S. 1702. We will be watching with close interest as the measure is discussed in the Congress and we hope for speedy passage of the measure with certain specific exceptions or amendments as we have indicated.

Respectfully submitted.

ELTON L. BERCK,
President, Farmers Union of Nebraska.

Mr. PATTON. Mr. Chairman, the next is the rice program, and since the chairman of our rice committee couldn't be here, Mr. Johnson of our staff will testify on that.

RICE

The CHAIRMAN. All right, have a seat.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. JOHNSON. Mr. Chairman, prior to the development of the administration's rice program, the Farmers Union conventions in Arkansas and Texas went on record favoring the continuing of the present rice program.

Our rice growers in each of these areas have been very strong supporters of the program. They have had significantly high votes in referendums for keeping production in check, and they are still willing to do whatever is necessary to change the present program in order to make it work.

Without saying any more, I will say that Mr. Patton has already pointed out that we would like to see the title on rice stricken from the bill and stay with the present program.

The CHAIRMAN. Let me ask you this: You realize, of course, that if we don't suggest new ways and means to deal with the rice problem, that it will be within the jurisdiction of the Secretary of Agriculture to lower the acreage from the present 1,800,000 to 1,600,000 and it would be also in his discretion to reduce the support price from the present 69 to 65 percent of parity, which would mean \$4.30 average price with an acreage reduction of 200,000?

What comments have you on that?

Mr. JOHNSON. Mr. Chairman, we face here again the pressure of the Budget Bureau for reducing the cost of farm programs, and I think the expressions by all of our witnesses here have been to the effect that we in agriculture are going to have to continue to have adequate Government expenditures for agriculture if we are to maintain farm income.

Our growers, of course, would like to see the program for rice continue to maintain their income and perhaps increase it. If it is possible for them to take an acreage cut and still maintain income, I think this would be their first priority of choice.

The CHAIRMAN. But the difficulty is that they can't do that. As I said, the alternative that the Secretary of Agriculture will have will be to reduce the acreage by 200,000, and the price from \$4.50 to \$4.30, and although he hasn't wanted to do that he said that it is possible that he will have to do it.

Mr. JOHNSON. Well, Mr. Chairman——

The CHAIRMAN. I am just taking the negative now.

Mr. JOHNSON. Yes, sir; I realize that.

The CHAIRMAN. I want to say something else. I presume you are familiar with the bill that I dropped in the hopper as to two-price system for rice. I am not wedded to that by any means. But it is an effort on my part to have something before this committee that we can work on in order to offset this threat, if the present law is retained.

Mr. JOHNSON. Mr. Chairman, I haven't had a chance to study the details of your proposal but I recognize that you are reacting to the situation with regard to the budget.

The Secretary has announced the fact that he feels that the rice program is too costly. Again, let me say that our people would rather take an average cut and stay with the present program if that is necessary. At the same time we would hope that the Congress would once and for all, in the action you would take, counteract the pressure from the Budget Bureau to take away the funding of some of the programs under which farmers are doing reasonably well.

Rice farmers come to town with \$20 shoes these days because they do have a good program, and we would hope that at least in this instance we could protect a program which has worked well and attempt to begin to make some of the other program we have for other commodities equally as good as rice in terms of protecting the income of producers.

The CHAIRMAN. I wish you would look over the bill.

Mr. JOHNSON. I will be happy to study it.

The CHAIRMAN. And what we will do, if you will, if you are not prepared to make an answer now, we will reserve space in the record to put your comments following your remarks of today.

Mr. JOHNSON. I will be very happy to do that, Mr. Chairman.

(The information follows:)

Mr. Johnson has informed the chairman that he sought a full expression of views of Farmers Union rice growers and that their first priority is to continue the present program.

COTTON

Mr. JOHNSON. I would like to say also that we are aware of your views with regard to cotton, and I want to say to you that we are very much in sympathy with the type of program that you support for cotton, because we were also architects along with you of that cotton program.

The CHAIRMAN. We got licked but if anybody would read the record they will find out that what I said was true.

As a matter of fact, the disaster was worse than what I predicted it would be.

Senator AIKEN. We paid for it.

The CHAIRMAN. Certainly, the Government did. Then the consumer didn't get any advantage from it.

Senator AIKEN. Got a rise in prices.

The CHAIRMAN. I see Senator Russell looking at me. We will have our debate on the Senate floor, Senator Russell.

Senator AIKEN. We have a lot of witnesses coming in on cotton.

Mr. PATTON. If Reuben is through on that, Mr. Chairman, I would like to have him deal with our position on resale of commodities from CCC.

The CHAIRMAN. All right.

Mr. JOHNSON. Mr. Chairman, let me say that the details of our general recommendations on cotton, facing up to all of the complexities, is a part of the target program which Mr. Patton put in the record, and I won't take more time on cotton. I would like to say we will be working with individual members of the committee with regard to cotton in the days ahead because it does seem to be one of the most frustrating problems that the House is dealing with currently and that the Senate must also deal with.

CCC RESALE PRICE

Mr. Chairman, as Mr. Patton has already pointed out, the Farmers Union has taken the position that CCC resale price on wheat, not feed grains, but on wheat alone, should be increased to 120 percent of the loan rate.

The CHAIRMAN. Is that to force the Government to keep the wheat so that the wheat market will go up?

Mr. JOHNSON. Yes, I think that would be the practical effect.

The CHAIRMAN. That is it. If you get 100 percent of parity why do you worry about it if the resale is 105 or 107 or 110?

Mr. PATTON. I would like to add, Mr. Chairman, there is another factor in this matter.

The CHAIRMAN. I would like to know what it is.

Mr. PATTON. That is, the truth is, that the cooperatives and the private grain trade have very stiff competition where the Government has gone into the business of buying and selling grain.

The CHAIRMAN. Well, they buy the grain, though, Mr. Patton, under this program which we are now discussing.

Mr. PATTON. Yes, and then use it to manipulate the market.

The CHAIRMAN. Well, the Secretary of Agriculture vehemently denied that yesterday.

Mr. PATTON. I know he denies it and this is one we have had an argument on all over the lot.

The CHAIRMAN. I understand.

Mr. PATTON. That is the other reason is all I am saying.

The CHAIRMAN. I understand.

Mr. PATTON. Mr. Chairman, it may be that Mr. Schmidt has a comment on this 120 that we haven't covered.

The CHAIRMAN. Is there anything else you desire to cover before I ask you one question?

Mr. SCHMIDT. Not to my knowledge.

Mr. PATTON. I would just like to summarize what we have said here.

FEED GRAINS

The CHAIRMAN. Before you summarize that, I would like to ask this question. When we put the corn program into effect in 1961 it was with the idea of having a temporary 1-year program so that in the meantime we could try to devise some ways and means of writing out

a reasonable corn and other feed grain program. I envision the program for corn and other feed grains along the same line as all other basic commodities. I would like for anybody here to tell me why it is that we force cottongrowers, we force wheatgrowers, we force peanut-growers, we force tobaccogrowers, we force ricegrowers to acreage controls and marketing penalties and not corngrowers?

Why can't we have a bill enacted so as to reduce the production of corn in keeping with our requirements by having acreage controls?

Mr. PATTON. First, Mr. Chairman, I would like to say that I personally believe in mandatory controls.

The CHAIRMAN. Yes.

Mr. PATTON. I do not believe philosophically for voluntary controls because we got a licking on the wheat referendum and we were out and we were up against an even worse situation so far as corn was considered and we had to do the best we could do and we had some pretty powerful political Midwest power and we were up against this thing so many times, of getting the agricultural family together.

The CHAIRMAN. It seems to me that if any farmer expects—I don't care what he produces—his Government to give him price support he should be willing to produce in line with requirements. That has been by philosophy way back.

Mr. PATTON. I personally agree with that, Senator. It is completely logical.

The CHAIRMAN. Somehow, as I have often said, the corngrowers have been the little blue-eyed girls of the farm program. They have got everything they desired, as against other producers of commodities.

Senator AIKEN. The answer we have always had to that question, Mr. Chairman, is that 80 percent of the corn is consumed on the farms.

The CHAIRMAN. It is 85, George.

But notwithstanding that, we have had this accumulation of 84 million tons of excess corn and other feed grains.

Senator AIKEN. That is true.

There has been a large excess. But that has been the answer we have had, 85 percent is consumed on the farm where it is produced and, therefore, instead of controlling the corn you are controlling livestock production. I say that is the answer: I am not insisting that is the right answer, but that is what we have been getting.

Mr. PATTON. Do you have any comment on 120 percent of wheat?

Mr. SCHMIDT. Well, going back to the 120 percent that you asked about, if we were achieving 100 percent of parity we would not be concerned so much about the 120. The 120 is more or less to get the flow of grain back into the grain handler's position where the farmer can redeem this and put it back in the market himself instead of Commodity Credit being the sales agency for this commodity. This is basically as a producer what I am interested in.

The CHAIRMAN. You say you want to wind up, Mr. Patton?

GENERAL

Mr. PATTON. Yes, sir, Mr. Chairman; I have asked to file this summary statement and I have only three comments to make.

No. 1: The people of America ought to thank God every night for the kind of agriculture they have, who buy their food for 17 or 18 percent of their total working time, and the lowest I have been able to find is

about 30 percent in any other country in the world, and the people behind the Iron Curtain are paying up to 60 or 70 percent of their working hours.

I think that somehow, Mr. Chairman, we are going through a great transition with cybernation and automation and at the same time we are losing people off the farm, we are losing jobs in the city, and we have got to turn this telescope around.

What we have been doing is looking through a telescope, through the wrong end, so that everything looks smaller instead of bigger. We had two speakers of international renown at the national convention of the Farmers Union who said that they literally expected a world crisis in food, one said within 10 years and the other said within 15 years.

Now, we are acting as a people as though we could go on wearing old levi overalls for a 10-year-old boy when now we are 25, and it just can't be done, and I hope that as many Americans as possible, and especially those in agriculture will read the booklet put out by the distinguished economist, Leon Keyserling, who I see is here this morning, if for no other reason than to get some perspective because we are in geometrics now.

Four percent of \$600 billion is a great deal more money in gross national product and income than 4 percent was of \$200 billion when I was talking of the Full Employment Act of 20 years ago.

So, proportionately, even though everything in the bucket is charged to agriculture in our agricultural bill although a lot of it should be charged to foreign policy and a lot of it should be charged to the consumers because we provide them better protection than any other country of the world that I know of, and everything that happens over there is charged to the American farmer in the minds of the American people.

But even with that geometric progress, we are going to be talking about a trillion dollars of gross national product, and we would have had a great deep depression in this country if we had not had a warfare state in this country from the Korean war on.

For the first time in the history of this country we had a professional warfare state and with that built in with a shock absorber to the economy, \$50 billion while spending \$5 billion a year to go to the moon for God knows what, I don't know what they are going to see up there——

The CHAIRMAN. All the cream cheese. [Laughter.]

Mr. PATTON. The same people squawk about how much agriculture is costing, and who worry about the consumer, and I am for the consumer, agriculture, farmers are consumers, my goodness, they are giant consumers, are not looking realistically.

We are spending less, percentagewise, in some areas, including some areas in agriculture, than we did 10 years ago if you talk about our ability to do so, and that is really what we need to talk about, Mr. Chairman.

I want to, in closing, say again we thank you and the Senators who have sat here patiently and listened to us, we are deeply disturbed. We don't pretend to have the answers, and I think anybody who says they have all the answers to a problem as complex as agriculture is either a fool or is a pretender.

The CHAIRMAN. Or a liar.

Mr. PATTON. Or a liar, thank you very much.

(The summary statement referred to above is as follows:)

TARGET PROGRAM ADOPTED BY DELEGATES CONVENTION OF NATIONAL FARMERS UNION, MARCH 15-18, 1965, CHICAGO, ILL.

Net realized farm income for 1964 was \$12.6 billion, far below the income needed by millions of working farm families for a decent standard of living.

Our Nation can ill afford to neglect a system of agriculture which has made the United States the most productive in the world, and which produces food and fiber at a lower cost to the consumer than any other nation in history.

The economic future of the United States is irrevocably tied to the economic strength of our farms and rural areas, including main street business. Simple justice dictates that farm families are entitled to a fair share of the Nation's income. Net farm income of \$12.6 billion annually as compared to the value of all goods and services produced and sold in our Nation means that 8 percent of the population—American farm families—receive less than 3 percent of our national product.

The administration and the Congress must be alert to those who in the name of efficiency seek to destroy our family farm structure through fostering policies which will further reduce the number of our Nation's farmers. The number of U.S. farms has decreased by 100,000 in the past year and by over 1,300,000 in the past 10 years.

We have a strong, new Congress and it has an obligation to take care of the unfinished business before us and to prepare the way for a new agenda and a package of farm commodity programs to raise farm income substantially in keeping with well defined standard of parity income. This worthy goal should command our national attention and our national devotion.

Accordingly, we present the following specific legislative program to the Congress and call for immediate action.

CONGRESSIONAL POLICY ON THE FAMILY FARM

A Senate-House joint resolution reaffirming a national policy of preserving and strengthening a family-farm agriculture in which there is opportunity for farm families to stay on the land and provision for the entry of young families into farming.

FARM INCOME

Recognizing that the Congress will determine this year future programs for wheat, feed grains, cotton, dairy, sugar and wool, we strongly urge a "package" approach as the best possible strategy to get the support needed for passage of farm legislation. With the cooperation of Congress, we pledge our efforts to work for unity in agriculture already demonstrated by a Washington meeting of 24 rural and farm organization representatives who signed a joint statement calling for an adequate farm program budget and a strong family-farm agriculture. We call for exclusion of nonfarm interests from participating in farm price supports. As minimum steps, we support commodity program improvement as follows:

Wheat and feed grains

(a) The present voluntary certificate program for wheat and the present program for feed grains should be extended for 5 years with the wheat certificate value and the support price (including payment) of feed grains for family farmers increased to reflect parity of income.

(b) The basic support rate should be maintained at a level that will encourage compliance and should not be reduced to such a level that will encourage excessive livestock production.

(c) Interchange of plantings should be permitted between feed grains and wheat with a common wheat-feed grain base.

(d) Adequate payments for land diversion should be continued until such time as the direct payment is large enough to compensate for the loss of the diversion payment.

(e) No Commodity Credit Corporation inventory of wheat should be disposed of at less than 120 percent of the support price and other policies concerning CCC marketings should be directed toward strengthening the regular market structure.

Cotton

(a) A 5-year program to permit cotton to be competitive in the international market with price support to include direct payments to producers along the lines of the Talmadge-Humphrey bill.

(b) Direct payments should be made in such a manner as to protect the family-farm cotton producer. Family-farm producers must be assured of parity returns on both cotton and cottonseed.

(c) The basis of price support should be reestablished at $\frac{7}{8}$ inch Middling, beginning with the crop year 1965.

(d) Provisions of present law concerning release and reapportionment should be amended to provide that a grower keep his acreage at his discretion without the necessity of planting any cotton and to provide for a method of factoring reallocations so that when quarter a bale to the acre allotment is transferred to a bale to the acre production area, 4 acres will only be transferred as 1 acre.

(e) In the administration of the cotton program, it is important that a larger acreage reserve be set aside for those who are trying to establish economic units of production.

(f) A program of aiding needy families in obtaining cotton mattresses, blankets, and clothing under the direct distribution and food stamp plan should be instituted.

Dairy

(a) Continue present price support authority and vest the Secretary of Agriculture with power to use supply, demand, adequate reserves, farm income, and related factors for the purpose of achieving parity of income levels for commercial family farmers.

(b) Authorize the establishment of Federal orders for manufacturing milk which permits classified pricing of milk used in manufactured products, and also authorize use of direct payments where necessary to effect parity of income for commercial family farmers while stimulating the distribution and consumption of any one or all of these products.

(c) Amendment of Public Law 480 to permit purchase by the Government of dry milk, butter, and cheese without regard to supply or market price.

Livestock

When Government purchases of livestock products are made, the program should be designed to insure direct price benefits to farmers and ranchers. Further, we call for a standby program of incentive payments for lightweight marketings and for increased efforts to expand export trade in livestock products.

Wool

(a) A progressive system of direct payments that will increase the incentive payment to family farm producers.

(b) Wool legislation should be included in the comprehensive bill along with wheat, feed grains, cotton, and dairy.

Conservation

We call upon Congress to restore the cuts proposed in the budgets of the Soil Conservation Service and in the Agricultural Conservation Program which would result in loading costs on farmers of technical services and conservation measures essential to the long-term national interest in prevention of soil and water depletion and to assure that food and fiber needs of future generations, will be met.

Mr. SCHMIDT. Mr. Chairman, I have three gentlemen with me but due to time I would like to ask permission to submit their statements.

The CHAIRMAN. Without objection that will be done.

(The statements follow:)

WHEAT

STATEMENT FILED BY CARL OTTO, ROCKY MOUNTAIN FARMERS UNION, YODER, WYO.

Mr. Chairman, I am Carl Otto of Goshen County in southeastern Wyoming. I appreciate the privilege of submitting this statement to you and the committee. Since there has been much said concerning large farmers, I would like to point out that I am a small family-type farmer (for our area) with a combination operation of only a present 232-acre wheat allotment for summer fallow wheat production and I keep about 100 hereford cows for weaning calves. With sum-

mer fallow farming, we farm twice as many acres as we have in crop because half lies idle in summer tillage each year.

As you know, most of the wheat in Wyoming is produced in the eastern tier of counties. Our county is almost entirely dependent on the income of agricultural producers who live there. For this reason the family-type operation is vital to its economy.

Because the added adverse effects of our numerous weather hazards of drouth, wind, and hail, we seriously need a fair price to even begin to make 1 year average off another. Even with the excellent cooperation of a very hard working and frugal family, this task becomes extremely difficult.

Just the other day I bought this one small repair part that I hold in my hand for my windrower. At the present average wheat price, it would take four men to carry the 400 pounds of wheat I must deliver into the handling facilities of my purchaser. If the repairman was to bring this part out and install it, the amount of wheat needed would be almost double.

This is with the present certificate program which is far from adequate. The noncertificate price would compare with the export price of wheat. Yet there are many who feel that we farmers can pay an American price for equipment while receiving a foreign price for our products. By necessity, I feel that if we are to pay a U.S. price, it is imperative that we receive a U.S. price for the food consumed in the United States.

In addition, it should be only fair that the buyer of the product pay this price just as users of equipment and repairs pay the full price.

In order to have jobs for low income people who must have jobs in order to buy food, we must be able to buy the products that their jobs produce.

For myself, since 1959, I have been able to buy practically no new equipment and no more repairs than is absolutely necessary. This is not good for the agricultural producer nor the business and laboring people.

For these reasons as well as many more, I urge the passage of a long term program with 100 percent of parity for domestically consumed wheat, as well as an export certificate.

Figures from Mr. Fulton Hester, Keeline, Wyo. concerning his farm operation follow :

	1947	1954	1964
Tractor cost.....	\$3,000	\$5,000	¹ \$7,000
Combine cost.....	3,000	6,000	10,000
Wheat price.....	2.07	1.97	² 1.52

¹ Same as 1954 tractor.

² Average price with certificates.

NOTE.—1,500 acre base, 844 acres allotment.

What other industry could begin to operate this efficiently?

WOOL

STATEMENT FILED BY EDWIN CHRISTIANSON, PRESIDENT, MINNESOTA FARMERS UNION, ST. PAUL, MINN.

Minnesota Farmers Union recommends a long-term extension of the National Wool Act, beyond the scheduled expiration on March 31, 1966.

The Wool Act has been helpful to producers in our opinion, but they are still in a relative cost-price squeeze, and it is imperative in our opinion that the support rate be increased.

Adequate funds are available from wool tariff receipts to maintain a full parity support level. In the past 2 or 3 years only half the funds available to the program have been used and the estimate is that the same situation will prevail in the current year.

Minnesota Farmers Union endorses the recommendation in the administration bill, S. 1702, to authorize use of a graduated system of incentive payments to producers.

We believe that it would be desirable to specify the support level in the legislation, providing not less than 90 percent of parity on the first 2,000 pounds, not less than 85 percent of parity on the next 5,000 pounds and not less than 80 percent of parity on the excess.

All producers would benefit by a support increase through application of the above scale.

We believe that the Nation has a stake in fostering a viable and stable domestic wool-producing industry and adoption of the above recommendations would help move toward that goal.

Mr. PATTON. Thank you very much.

GENERAL

STATEMENT FILED BY THE HON. GEORGE MCGOVERN, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman, on June 10 a group of more than 125 South Dakota citizens flew into Washington as a "rural lobby" to work in the interest of strong farm programs and to tell us of the economic crisis in agriculture in my State.

The Senate Agricultural Committee room was made available, and members of the South Dakota delegation, Senator Walter Mondale and Senator Gale McGee heard several members of the group present statements. Unfortunately, the Senate was in session and several other Senators who had planned to attend were unable to do so.

I ask consent, Mr. Chairman, for these statements to be included in the record of this hearing. They were prepared for the use and advice of this committee during our consideration of general farm legislation, and contain valuable facts and suggestions.

The statements include a position adopted by the whole group, plus the individual presentations of the State secretary of agriculture, a chamber of commerce manager and other nonfarmers, as well as farmers, on the serious agricultural income situation.

STATEMENT OF BEN RADCLIFFE, SOUTH DAKOTA RURAL LOBBY, HURON, S. DAK.

I am Ben Radcliffe, president of the South Dakota Farmers Union. We deeply appreciate this opportunity to meet with you.

I would like to introduce to the committee the South Dakota Rural Lobby.

This group is made up of people from virtually every walk of life. It includes educators, businessmen, laborers, farmers, bankers, doctors, clergymen, attorneys, and housewives. It includes the leaders of many community, business, professional, and farm organizations, several members of the State legislature, and representatives of the administrative branch of State government. Both political parties are involved in this effort. I believe that we represent the thinking of the vast majority of the people of South Dakota.

Our purpose in coming to Washington, D.C., is to tell the agriculture committees, other Members of Congress and the leaders of the Johnson administration of the crucial need for improved farm income. The members of the South Dakota Rural Lobby have contributed of their own money and their valuable time to make this trip because they are all deeply concerned about the depressed economic status of agriculture.

My remarks from this point consist of a statement approved by this delegation.

STATEMENT OF THE SOUTH DAKOTA RURAL LOBBY

The farm economy of South Dakota and other rural States is approaching a major crisis. So serious is the situation that unless immediate steps are taken to improve farm income, a farm depression may soon be upon us. This, in turn, could result in general recession that would seriously endanger the economy of the entire Nation.

Numbers tell only part of the story, but they are extremely meaningful:

While gross farm income in South Dakota has been increasing somewhat, higher production costs have been cutting deeper and deeper into meager profits. According to the South Dakota Crop and Livestock Reporting Service, net farm income in the State in 1963 was \$35.4 million below the most recent 5-year average.

Although final net income figures for 1964 are not yet available, total cash receipts from farm marketing dropped another \$12 million last year. If the growth in production expenses averaged the same as in the previous 10 years, the total drop in net income will amount to about \$28 million.

The 1960 census showed that median-family income in nearly a third of South Dakota's counties was below the poverty level of \$3,000 per year. Significantly, these counties generally represent the most agricultural areas and much of the best farmland in the State.

The steady decline in net income has caused a continuing migration from the farm. In 1931 there were 84,300 farms and ranches in South Dakota. In 1950 there were 67,100. Last year the number had dropped to 54,000. Since 1955 the drop has been 16 percent. Assuming that an average farm family has 4 members, 38,000 people have left South Dakota farm homes in the last decade.

The forced exodus from our farms has had an obvious effect upon our cities and towns. A generally accepted ratio is that for every 12 farms that disappear, one rural business place must close its doors. The mainstreets of hundreds of our rural communities bear witness to this attrition.

To improve the economic status of agriculture and to avert the very real possibility of a rural depression and the human hardships that would go with it, we ask for action now. The economic plight of America's great heartland will continue to worsen unless immediate steps are taken to substantially improve farm income.

We urge the Congress and the appropriate administrative agencies to act quickly to strengthen programs that directly affect farm prices and income. The following are the goals that must be sought and the means that should be used to attain them :

- I. Increasing farm cash receipts through :
 - A. Higher certificate values and price supports for wheat and feed grains in 1965 and in subsequent years.
 - B. An administrative decision to keep CCC sales of wheat and feed grains for unrestricted use to a minimum, thereby creating upward pressures on market prices.
 - C. Administrative action to boost exports of farm commodities.
 - D. Immediate action for a long-range, balanced, all-commodity farm program of equal benefit to the economic interest of all family farmers.
- II. Improvement of the farmer's ability to manage his farm effectievly and economically through :
 - A. Accelerated Soil Conservation Service "small watershed" developments with adequate funds for planning, technical services, and construction of improvements. Public policy in this area should be broad enough to include wildlife, recreation, and scenic resources.
 - B. Adequate technical services to all soil conservation districts, with the long-term public interest in conservation of land and water resources supported by public funds.
 - C. ACP practices which divert cropland to alternate uses on an annual or longer term basis should be given priority over land retirement. Land rental arrangements should be considered where the major benefits are of a public nature.
- III. Strengthened farms and rural communities through :
 - A. Earliest possible completion of the Oahe diversion project in South Dakota.
 - B. Adequate loan funds for the continued development of rural electric systems.
 - C. Increased rural economic development to provide satisfactory job opportunities in rural areas, thus ending the forced outmigration of young people from South Dakota and other Great Plains States.
 - D. Adequate farm credit both for continuing operations and for beginning farmers.

Facts of interest to South Dakota—Components of cash receipts from farming in the State

	1963	1964
Livestock and livestock products.....	\$489, 011, 000	\$482, 288, 000
Crops.....	169, 019, 000	156, 144, 000
Government payments.....	60, 122, 000	67, 924, 000
Total.....	718, 152, 000	706, 356, 000

Source: Farm income situation, February 1965, Economic Research Service. USDA.

Support prices for farm commodities

Crop	Unit	1965 support	1965 support as percent of parity	100 percent of parity as of January 1965
Wheat	Bushel	¹ \$2.00 ² 1.55 ³ 1.25	82.6 61.8 49.6	\$2.52
Corn	do	1.25	79.0	1.55
Sorghum	Hundredweight	2.00	80.0	2.44
Barley	Bushel	.96	77.0	1.23
Oats	do	.60	72.0	.84
Rye	do	1.02	75.0	1.37
Soybeans	do	2.25	74.3	3.00
Flaxseed	do	2.90	75.9	3.80
Milk	Hundredweight	3.15	75.0	4.30
Butterfat (manufacturing)	Pound	.58	75.0	.79

¹ Support for domestic food use—45 percent of production.
² Support for export use—35 percent of production.
³ Basic support—10 percent of production.

NOTE.—“Parity” is defined as a return on family labor, management, capital investment, and risk comparable to the returns that similar production resources receive elsewhere in the national economy.

Number of farms and land in farms in South Dakota, 1950–64

Year	Number of farms	Average size of farm (acres)	Land in farms (1,000 acres)
1950	67,100	669	44,900
1951	66,300	679	45,000
1952	65,500	690	45,200
1953	64,700	702	45,400
1954	64,000	711	45,500
1955	63,500	717	45,500
1956	62,500	728	45,500
1957	61,500	738	45,400
1958	60,400	752	45,400
1959	59,600	762	45,400
1960	58,400	777	45,400
1961	57,300	792	45,400
1962	56,200	804	45,200
1963	55,100	818	45,100
1964	54,000	833	45,000

NOTE.—The number of farms and ranches in South Dakota has dropped steadily from a high of 84,300 in 1931. Since 1955—or in just the last 10 years—the number has declined by 16 percent.

Source: South Dakota Crop and Livestock Reporting Service.

Realized gross and net income from farming

[Millions of dollars]

New	Gross farm income ¹	Production expenses	Realized net farm income
1950	549.2	344.0	205.1
1951	643.6	403.6	240.0
1952	610.5	405.0	205.5
1953	569.2	385.7	183.5
1954	608.2	384.0	224.2
1955	568.6	375.7	192.9
1956	542.9	380.8	162.1
1957	588.1	412.3	175.9
1958	744.0	448.3	295.7
1959	661.3	429.4	231.9
1960	665.0	458.9	206.1
1961	724.2	486.5	237.7
1962	753.5	525.5	228.0
1963	753.0	548.6	204.4

¹ Includes cash receipts from marketings, Government payments, value of home consumption, and rental value of farm dwellings.

Source: South Dakota Crop and Livestock Reporting Service.

Growth of price spreads for food products

Product	Percent change in farm value, 1947-49 to 1964	Percent change in retail price, 1947-49 to 1964
Wheat.....	-9	+47
Dairy products.....	-7	+19
Poultry and eggs.....	-43	-29
Meat products.....	-22	+7
All food products.....	-15	+31

NOTE.—Farmers in 1964 delivered 46 percent more food into the domestic market than they did annually in the 1947-49 base period. Americans paid about \$69 billion for the farm-produced food they consumed in 1964—\$28.2 billion or 69 percent more than their average food bill in 1947-49. Of this \$28.2 billion increase, \$24.5 billion, or 86.9 percent, went to processors and marketing agencies, while only \$3.7 billion trickled back to farmers in payment for their 46 percent greater volume of marketings.

Source: House Committee on Agriculture Study, "Food Costs—Farm Prices." released in April 1965

Market spread for related products

	Retail price	Farm value	Spread	Farmers' share
	Cents	Cents	Cents	Percent
Choice grade beef:				
1947 (per pound).....	61.8	48.2	20.0	68
1964 (per pound).....	77.8	46.6	35.4	54
Pork:				
1947 (per pound).....	59.9	30.5	18.5	69
1964 (per pound).....	54.6	30.2	29.8	47
Fresh milk:				
1947 (per ½ gallon).....	36.6	21.0	15.6	57
1964 (per ½ gallon).....	47.7	21.7	26.0	45
Bread:				
1947 (per pound).....	11.9	¹ 3.7	8.2	25
1964 (per pound).....	20.7	² 3.2	17.0	12

¹ With 3-cent wheat.
² With 2.5-cent wheat.

FOOD—A BARGAIN

The overall cost of food to the consumer in the United States in relation to his income has continued to decline. In 1950, food costs amounted to 22.8 percent of personal income, while consumers paid only 18.5 percent of their after-tax earnings for food in 1964. If the costs of farm programs were added to food bills, food would still take only about 19.5 percent of family income.

In contrast to the United States, consumers in the United Kingdom, according to the latest United Nations figures available, spend about 29.5 percent of their incomes for food ; in Russia, 53 percent ; France, 30.3 percent ; Greece, 46.3 ; Italy, 44.7 ; and Ghana, 54.1 percent.

One farmworker in the United States today feeds 33 persons, while in Europe 1 worker produces only enough for 10 people. In Russia, under a collectivist system, one farmworker's production feeds only four or five persons.

STATE LEGISLATIVE RESEARCH COUNCIL, PIERRE, S. DAK., JUNE 1, 1965

PERSONAL INCOME IN 1964

Although personal income advanced to a new high in nearly every State in 1964, according to the Office of Business Economics of the U.S. Department of Commerce, the Plains and Rocky Mountain States did not share the national increase. Personal incomes in 1964 were down in Montana, North Dakota, and South Dakota (which had the greatest negative deviation from the Nation increase of 6 percent—South Dakota's income was down 6 percent), and in most of the other States of the area increases were generally limited to 1 or 2 percent. It is significant that in every State in the Plains and the Rocky Mountain regions, non-farm income rose at approximately average rates ; the failure to meet the national average was attributable directly to the decline in agriculture.

Contributing also to South Dakota's overall decline in personal income was the very substantial reduction in contract construction (—22 percent), which resulted from the completion of military sites (principally the minuteman missile installations).

Figures on per capita income and sources of personal income for the Nation and for South Dakota and its neighbors are shown in the following tables.

Total and per capita personal income, 1963–64

	Total personal income			Per capita personal income					
	Amount (mil- lion dollars)		Percent change 1963 to 1964	1960	1961	1962	1963	1964	Per cen- of na- tional aver- age, 1964
	1963	1964							
United States.....	461, 610	487, 881	6	\$2, 217	\$2, 268	\$2, 367	\$2, 448	\$2, 550	100
Iowa.....	6, 399	6, 533	2	2, 024	2, 106	2, 203	2, 323	2, 370	93
Minnesota.....	8, 152	8, 356	3	2, 073	2, 149	2, 208	2, 334	2, 373	93
Montana.....	1, 553	1, 539	—1	3, 007	1, 935	2, 238	2, 215	2, 183	86
Nebraska.....	3, 376	3, 407	1	2, 135	2, 147	2, 276	2, 300	2, 302	90
North Dakota.....	1, 300	1, 298	0	1, 746	1, 552	2, 201	2, 016	2, 012	79
South Dakota.....	1, 390	1, 310	—6	1, 854	1, 842	2, 077	1, 963	1, 832	72
Wyoming.....	849	849	2	2, 311	2, 301	2, 440	2, 460	2, 475	97

Mr. RADCLIFFE. We haven't, of course, the time to introduce all of the people present here this morning so we are suubmitting, for the record, a list of those present.

SOUTH DAKOTA RURAL LOBBY

- Harold Belk, Watertown, Watertown Chamber of Commerce.
Leo Cwach, Yankton, farmer, Yonkton County Farmers Union.
Ralph Dennis, Canova, director, East River Electric Power Co-op.
Bill Dougherty, Sioux Falls, president, Livestock Exchange.
Elmer Ellison, Vermillion, farmer.
John Engel, Avon, attorney.
Homer Engelhorn, Madison, director of conservation at East River Electric.
Eugene Goehring, Delmont, farmer.
Larry Green, Madison, information director of East River Electric.
Dale Gullickson, Lake Preston, legislator-farmer.
Robert Hall, Madison, Lake County Commissioner.
Rev. R. Henriksen, Jasper, Minn., minister.
Peter Jesen, Brookings, farmer, chairman, Farmers Union Brookings Co.
Ernest Johnson, Pierre, secretary of agriculture.
Richard Kniep, Salem, legislator, dairy equipment.
Orrin Korth, Watertown, director of Farmers Union Central Exchange.
Lafe Lunder, Canton, attorney.
Mrs. Bob Lindell, Salem, housewife.
Fred Luyendyke, Corsica, grocery manager.
West Martin, Lake Preston, manager, Farmers Union Oil Co.
William Morrow, Armour, egg producer.
Duane Mortenson, Howard, board member, Farmers Union Central Exchange.
John Murphy, Elk Point, attorney, legislator.
Peter J. Noteboom, Corsica, manager, Farmers Union Oil Co.
Mike O'Connor, Burbank, director, Clay Union Electric Corp.
Lewis Peterson, Hawardin, Iowa, farmer, president, Union County Farmers Union.
William Raabe, Tyndall, director, East River Electric Power Co-op.
Richard Ronald, Mitchell, Mitchell Daily Republic.
Matt Schroeder, Alexandria, farmer.
Mrs. Beverly Selby, Sioux Falls, United Sioux Tribes.
Harlan Severson, Madison, executive assistant, East River Electric Power.
H. Ivan Steen, Sioux Falls, Northwest Bank of Sioux Falls.
Dr. John Stone, Brookings, South Dakota State University Extension Service.
Earl Thompson, Owatonna, Minn., retail machinery dealers.
Elvern Varilek, Geddes, legislaton, rancher.

Walter Wiedeman, Madison, legislator, insurance.
 Ivo Weber, Bridgewater, director, McCook Electric Cooperative.
 Gale Pifer, Madison, news, East River Guardian.
 Rod Barnes, Huron, commercial cattle feeder.
 Don Bradley, Redfield, chamber of commerce.
 H. S. Brink, Ortle, cattle feeder.
 Glen Brown, Sisseton, educator.
 Gil Buichard, Aberdeen, district manager, South Dakota Farmers Union Insurance.
 R. Chamberlain, Aberdeen, farmer.
 J. Christensen, Huron, farmer.
 August Dahme, Aberdeen, farmer, director, GTA.
 Rosco Dean, Wessington Springs, medical doctor.
 E. Gisselbeck, Castlewood, farmer.
 Warren Grebner, Aberdeen, general manager, South Dakota Wheat Growers.
 Warren Green, Waubay, superintendent of schools.
 Dean Haynes, Redfield, chamber of commerce.
 Orville Hepler, Huron, minister.
 Dave Hanson, Waubay, farmer.
 E. C. Heimback, Hot Springs, president, chamber of commerce.
 Adam Reinschmidt, Yale, director, Beadle Electric Cooperative.
 Jim Holwegner, Rapid City, Farmers Union fieldman.
 Robert Johnson, Groten, farmer.
 Archie Karstens, Huron, John Deere Implement.
 Dan Lamke, Huron, Northwest National Bank.
 Francis Langin, Sturgis, mayor.
 L. T. Lausten, Aberdeen, publisher, Dakota Farmer.
 Robert O'Donnoll, Bell Fourche, mayor.
 George Levin, Newell, cattle feeder.
 Walter Lohr, Raymond, director, Codington Clark Electric Co-op.
 Emil Loriks, Arlington, president, GTA board of directors.
 Mrs. J. Ludington, Hill City, housewife.
 Ralph Nauman, Gettysburg, farmer.
 Arne Nelson, Volga, president, South Dakota Milk Producers.
 Bill Noonan, Frankfort, farmer.
 Clem Noonan, Highmore, State Democratic chairman.
 Kenneth Ott, Verdon, farmer.
 Dave Owen, Huron, manager, editor, Huron Dailey Plainsman.
 F. M. Person, Hitchcock, farmer.
 Arnold Peterson, Ipswich, South Dakota Wheat Growers Board.
 Calvin Peterson, Huron, minister.
 Clarence Pollard, Hermosa, master of South Dakota Grange.
 Ben Radcliffe, Huron, president, South Dakota Farmers Union.
 Leo Rau, McLaughlin, farmer.
 Alvin Rehfeld, Warner, farmer.
 Mrs. Alvin Rehfeld, Warner, housewife.
 John Stephens, Spearfish, medical doctor.
 Loren Stoley, Highmore, farmer, RTA.
 John E. Sutton, Jr., Agar, rancher.
 Arthur Svendby, Lemmon, director, National Reclamation Association.
 Elmer Trautman, Thunder Hawk, manager, Farmers Union Oil & Elevator.
 Howard North, Murdo, manager, West Central Electric Co-op.
 Douglas Murphy, Forestburg, director, Intercounty Electric Association.
 Pete Eggen, Sisseton, director, East River Electric Power Co-op.
 James Ruddy, Huron, director, Oahe Conservancy Subdistrict.
 O. H. Buttermeier, Roswell, director, Intercounty Electric Association.
 Tom Fennell, Huron, information director, South Dakota Rural Electric Association.
 Andy Kliensasser, Huron, South Dakota Rural Electric Association.
 Vernon Voelske, Gregory, farmer.
 Kenneth Sarrens, Hot Springs, city council.
 B. J. Dankey, Woonsocket, manager, Farmers Union Oil Co.
 Mrs. Oris Authier, Vivian, housewife.

Mr. RADCLIFFE. I have a letter from Rev. Louis Miller of Elkton, S. Dak., which he would like inserted in the record. He would have been with us this morning but he couldn't get away.

(Committee staff synopses of the letter and statements are as follows:)

LETTER OF REV. LOUIS MILLER, ELKTON, S. DAK.

[The letter points to the need for Government programs to concern themselves with the social welfare of farm people, provide the family farm with the credit needed to apply technological advances, and impose a limit on subsidies to large producers.]

STATEMENT OF ERNEST JOHNSON, SECRETARY OF AGRICULTURE OF SOUTH DAKOTA

[The statement compares current expansion and increases in per capita income with decreases in per capita income in South Dakota (now 72 percent of national average) and attributes it to the cost-price squeeze on farm income. Points to production success of farmers, which results in average American family spending only about 19.5 percent of its income for food.]

STATEMENT OF ARTHUR SVENDBY, MANAGER, LEMMON CHAMBER OF COMMERCE,
LEMMON, S. DAK.

[Mr. Svendby states that South Dakota farms decreased by 10,500 in the 10 years 1954-64; 93 farm auction sales were held in the Lemmon area in 1963 and 1964, resulting in an estimated loss of business in the area in excess of \$1 million; 11 business firms were liquidated during the same 2 years. The present inequitable farm parity program, with constantly forced reduction in cash income is crushing the economy of the rural area of South Dakota.]

STATEMENT OF MORRIS A. HERSRUD, HERSRUD IMPLEMENT Co., LEMMON, S. DAK.

[Farmers spend a great proportion of their income on capital investments, little on themselves, are the largest single purchasers of steel, rubber, oil, fuel, etc. They should receive a fair share of the consumer dollar.]

STATEMENT OF ARNOLD MOLITOR, MOLITOR MOTORS, LEMMON, S. DAK.

[Farmer should receive fair share of consumer dollar. Mr. Molitor makes living on land formerly farmed by 16 families, has only 1 child at home. With educational costs and other expenses up, farmers with larger families are having a difficult time.]

STATEMENT OF RICHARD KNEIP, MEMBER OF SOUTH DAKOTA SENATE, AND DAIRY
EQUIPMENT DEALER IN SALEM, S. DAK.

[Reaffirms what others have said as to loss of South Dakota farms, low prices, low cost of food to consumers, need both from farmer and consumer viewpoint of need for higher farm prices. We should be thankful for abundant supplies. If consumers here spent as much of their income for food, as do consumers in Great Britain, our food bill would have been \$104 billion instead of \$69 billion.]

STATEMENT OF C. E. POLLARD, MASTER OF THE SOUTH DAKOTA GRANGE, FORMOSA,
S. DAK.

[South Dakota farmers cost-price squeezed harder than others because no alternate opportunities debts up. South Dakota farmers have been living off inventories. Their declining purchases are an economic hazard to community. Farm income must be improved.]

STATEMENT OF GEORGE LEVIN, IN CATTLE BUSINESS, NEWELL, S. DAK.

[Ninety percent of ranchers deeply in debt, must have better prices, 100 percent of parity for all livestock products.]

STATEMENT OF WILLIAM J. DOUGHERTY, PRESIDENT OF ADAMS-DOUGHERTY COMMISSION CO. AND SIOUX FALLS LIVESTOCK EXCHANGE, SIOUX FALLS, S. DAK.

[Packers and Stockyards Act needs revision Packers should be required under a Federal livestock marketing order to purchase a fixed percentage of their supplies from a federally licensed, supervised market in open competition. Eliminating the terminal market puts the farmer at a bargaining disadvantage. Guidelines need to be established giving the livestock producer and feeder complete information on all the variables of marketing.]

STATEMENT OF ADAM REINSCHMIDT, FARMER, YALE, S. DAK.

[His cattle prices dropped from \$31 in 1961, to \$28 in 1962, to \$26 in 1963, and about \$22 in 1964.]

STATEMENT OF RALPH DENNIS, CANOVA, S. DAK.

[Farmers need a permanent program, extension, soil conservation, more REA funds.]

STATEMENT OF HOWARD MILLETT, STATE COMMISSIONERS' ASSOCIATION OF SOUTH DAKOTA

[The cost-price squeeze is forcing the younger people out of rural areas.]

STATEMENT OF HARRY GRAHAM, NORTHWEST SOUTH DAKOTA PRODUCTION CREDIT ASSOCIATION

[There is no disagreement between the Farmers Union and the Grange about farm income.]

The CHAIRMAN. Mr. Keyserling?

All right, Leon.

The entire statement of Mr. Keyserling will be placed in the record and we will ask him to highlight it.

STATEMENT OF LEON KEYSERLING, CONSULTING ECONOMIST, AND PRESIDENT, CONFERENCE ON ECONOMIC PROGRESS

Mr. KEYSERLING. Mr. Chairman, and members of the committee, I doubly appreciate the opportunity to be here, because I do not represent any farm organization.

Senator AIKEN. You eat, don't you?

Mr. KEYSERLING. Yes. In fact I don't—

The CHAIRMAN. That is apparent.

Mr. KEYSERLING. Maybe I constitute the solution to the farm problem. [laughter.]

The only thing—

The CHAIRMAN. I have known Leon for a long time, that is why I talk to him like that.

Mr. KEYSERLING. The only thing I represent is a vital interest in the farm program that goes back half a century, to the time when I was

literally a member of a farm family in my home State which is also the home State of Senator Russell. During the time between when I was 7 years old and when I was 20 years old, during which all the income my family had was derived from agriculture, I saw the community three times ravaged, first, by the advent of boll weevil because we were at that time a cotton community; second, by the decline in farm commodity prices in 1920, when cotton fell from 43 to 17 cents a pound overnight; and third, by the great depression which hit us so long before it hit others that when I came home from college as a sophomore in 1926 all the banks in the community were closed, and the whole community was prostrate. By then we were doing truck farming, not cotton. We were growing primarily cabbage, potatoes, lettuce, and tomatoes. So, I have a deep feeling about this farm problem.

Moreover, during the past 13 years, I have made recurrent studies of the farm problem, not only from the interest of agriculture, but from the interest of the general economy.

Now, I think I could be most useful by turning my attention first to some of the remarks which I heard the chairman make this morning which have to do with the cost of the farm program.

That cost may be looked at from the viewpoint of economics, and it may be looked at from the viewpoint of the practicalities of farm legislation. They are two entirely different things. Both are important.

From the viewpoint of economics, I think an unassailable case can be made that the farm program has not cost and does not cost too much. Government spending for the farm program is totally unlike Government spending of \$50 billion a year for national defense, which I don't challenge in the current world situation. But the Government spending for national defense consumes and burns up resources. It burns up the real wealth of nations, and the products become obsolete every year or two. In sharp contrast, Government spending for agriculture is a transfer payment. It transfers certain income from one part of the economy to the other, and when you look at the ratio of farm incomes to other incomes, and the great purposes of the farm legislation from the beginning, this transfer has been too low rather than too high by all appropriate tests of economics and equity.

In the second place, we do have to set the farm program costs in the context of other costs, because everything in life is relative. I will give one example, which I hope won't be misunderstood.

I made a quick mental calculation here, when I heard the chairman's remarks, and I estimate that the farm program currently, on a fiscal basis, is costing very roughly about \$300 per year per person living in agriculture.

We have just embarked upon a war against poverty, and when I estimate the called for costs of this program, relative to the number of people processed—I will say processed rather than helped because I have some doubts about that program in its current form which I won't go into here because it has nothing to do with this hearing—the cash cost to the Government per person attempted to be helped is about \$5,000 a year, or about 17 times the per capita cost of the farm program.

I won't labor this any more, because I do agree entirely with the chairman that this is a matter of partical legislation rather than a

matter of economic analysis, this may be unfortunate, because we all feel we ought to be approaching the farm problem entirely from the viewpoint of the well-being of the country, but we can't limit ourselves to that.

The practical matter arises from the hard fact that when I was a boy in South Carolina the farm population was about a third of the national population, not very long before that it was 50 percent, and now it is about 7 percent, and, therefore, anything attempted to be done for farmers comes up against the uninformed opposition, and I underscore the word "uninformed" of 93 percent of the people.

Now, you can't wash away that 93 percent of the people, and you can't do anything much about that except to ask by what methods this central difficulty may be reduced.

I submit that there are three ways of reducing it. I think one way is to give these 93 percent of the people and the conscientious legislators who represent them a better impression and understanding of what the real economic facts and financial facts of the farm problem are, because they certainly haven't got this now in the main.

There has been a tremendous barrage of propaganda and misinformation on this. We have to hope, in a democracy, that attempts to overcome this will do some good. I don't think, short of this, that whether the cost of the farm program is \$5 billion a year, \$4 billion a year, \$3 billion a year, or \$2 billion a year, will overcome this intractable opposition to the farm program so long as these 93 percent of the the people have this kind of misinformation.

Second, because people are practical and guided by self-interest rather than being angels, we have to show these 93 percent of the people, and the legislators who represent them, that what is happening to agriculture is bad for them. Because one of the greatest sources of misinformation on the whole farm problem has been the idea that if you deflate farm income, if you drive farmers off the land, other people will benefit.

I remember on platforms, 10 years ago, when I was up against the whole stream of American economists who were saying that as millions of farmers were driven off the lands they would easily get jobs in industry.

What we have found instead of this is that, if we cumulate the number of farm people who have been driven out of the agricultural work force since 1953, they are equivalent in number to almost 50 percent of the total unemployment in the United States about which we are so much worried. Now, this doesn't mean exactly that, man for man, it works out that way. Some of these people driven off the farm have retired, some of them have died, some of them have gotten jobs at the expense of others in a scant labor market. But nonetheless, all that has resulted for the other sectors of the population through the driving of farmers off the land is the multiplication of unemployment and economic and social costs and welfare costs in the cities.

So our second big task is to dispel the vast misinformation on this score.

The third thing I think we have got to do, despite what I said in the beginning, and still being practical and realistic, is to find ways of getting the costs of the farm program down without doing further

injury to agriculture and, hopefully, along lines which will improve the conditions of agriculture.

Now, I will try to address myself, I hope briefly, and with the aid of my charts, to these aspects of the farm problem.

I would like to have these materials put in the record, because they will enable the members of the committee and others later to go into this more fully than I want to do now, because of my appreciation of the time of the members of the committee.

First of all, about the farm income situation, although one would think that the American people would know by now that the farmer is taking huge income losses, even on this there has been tremendous propaganda to the effect that, when we allow for the declining size of the farm population, the farm family is not really suffering because there are fewer of them as their income goes down in the aggregate.

I might give as one answer to this that I would not think it much of a solution to the problem of people on a ship to save the ship by throwing half of them into the sea, and that is just what has happened to the farmers who have been thrown off the land.

But even assuming that it were desirable to save those on the ship by throwing half of them into the sea, what has happened to those who have remained on the farm-ship? Let us take a look just for a second at my chart 1. I am not going into all of the features of the charts, because they are rather complicated.

(NOTE.—For the charts referred to by Mr. Keyserling, see pp. 288 to 319.)

Mr. KEYSERLING. All we have to do is to look at this middle sector which shows that since 1947, which is the first year in an economic sense after World War II, farm personal income from all sources because we hear often that the farmer on the farm may be doing badly, but he has a little money from part-time employment in industry, he has a little money from real estate—farm personal income from all sources has gone down 25 percent, while total nonfarm income has gone up 97 percent.

If we take the more recent period from 1953 to 1964, farm operators' income has gone down by almost 1½ percent a year, and total nonfarm income has gone up 3.6 percent a year.

I also put the total dividend and interest income in because I will have to say a little bit more about that later, and also about the fact that it is costing the Federal budget now \$5 billion a year just to pay the higher interest payments, or more than the cost of the whole farm program.

Let us move on to the chart 2, because I do not want to bore you excessively with this demonstration.

It is said that, because of the decline in the farm population, the individual farm family is doing all right. Let us forget about the top part of the chart and look at the middle.

Averages do not mean very much, but of the 3 million farm families today, they have an average income of \$4,107, and nonfarm families average \$7,644, or about 86 percent higher, and that translates into the fact that on an income basis the average farm family has about 53 percent of income parity with the others.

Now, coming down to the bottom, which is——

Senator AIKEN. Can you reduce them so they will go in the record?

Mr. KEYSERLING. Yes, we will reduce them.

Senator AIKEN. I think it is very helpful.

Mr. KEYSERLING. Now, we are all in a sweat about the war against poverty, and I think we should be, provided that the program is right. As I say, I am not going to talk about that here today. Forty-three percent of the farm families are below the ceiling of poverty as defined by the Government, but only 17 percent of the nonfarm families.

I have heard the old saw that it costs the farmer less to live, and this was true when the farmer was building his own house, weaving his own clothes, growing his own food. But today he does not build his own house, he does not weave his own clothes, he does not even produce most of his own food if he wants to have the kind of pleasant and nutritious and packaged and frozen diet that others have and, moreover, as to his big costs to educate his children, to pay for his insurance, save for the future, to buy an automobile, to buy a tractor, to buy gasoline, in all these respects his costs are the same as anybody else's, and maybe in some respect a little more because he is farther away.

So what it comes down to is that the talk about it costing the farmer less to live, really means that we accept unconsciously the idea that he should have a lower standard of living.

Moreover, if you look at the distribution, the important thing is not just 43 percent of farm families who are above \$3,000, because we might argue about the ceiling a little bit, for 17 percent are below \$2,000 as contrasted with only 6.2 percent of the nonfarm families, and more than 11 percent are below \$1,000 as compared with only 3 percent of the nonfarm families. These are the bare elements in the farm income situation.

Now, as to the demographic situation, as detailed on chart 3. Comparing 1964 with 1947, the farm population has declined from 26 to 13 million, or from 18 percent to about 7 percent of the total population, as I have said; from 6 million farms to 3½ million farms; from 10½ million in farm employment to about 6 million, and the end is not yet in sight.

Chart 4 compares the employment trends in agriculture with those elsewhere, and chart 5 indicates the shift toward large and giant farms.

Now, we come to the question as to what effect this has on the non-farm economy, and I think this is one of the most important things, because if the 93 percent of the people could be brought to see what the tragedy of American agriculture is doing to them, I think we would be getting somewhere. This is one of the original features of my study.

Turning back for a moment to chart 4, it shows the much more serious decline in farm employment than the other sectors of the economy. If we look at agriculture from 1947 to 1964, we see the very large absolute decline on an annual basis in farm employment, while in most of the other areas the employment opportunity has been going up, even if too slowly.

The CHAIRMAN. You are talking about employment?

Mr. KEYSERLING. This is employment, and this is not hired employment, Senator. This is the work force in agriculture. This includes predominantly the farm family, not predominantly the hired labor.

It indicates, 1953-64, the use in idle plant and manpower throughout the U.S. economy, and estimates the deficiencies or gaps in total national production, measured against maximum production.

What I have done on chart 7 is to estimate the share which deficient farm income, and I measure deficient farm income very simply as the difference between what it is and what it would be if the avowed goals of the Congress for the last 30 years were realized, reasonable parity of income—allowing for that, and coming down to the very bottom here at the right, although the farm population is now only 7 percent of the national population, the farm income deficiency as a share of the national income deficiency is close to 20 percent, or close to one-fifth.

In other words, while the farmer is being shared out of everything else, he has an immensely disproportionate share in the income deficiency.

This simply means that, although the farmer is only 7 percent of the population, close to 20 percent of our whole economic trouble in the nonfarm economy is directly attributable to the deficiency in farm income, and this is doubly so because, as we all know, the farmer is a much higher spender for capital goods, and even for consumption, relative to his income than any other segment of the economy.

Chart 8 indicates the very high ratio of the deficits in farm capital spending to the total deficiency in gross private domestic investment.

Now, we come again to the matter of unemployment, and the chart 9 merely spells out what I said before.

This middle line shows cumulatively, and I think it is fair to show it cumulatively, the number of people forced out of the farm work force, and again I say this is not any segment of the farm work force, it is the whole, everybody who is working in agriculture. That cumulative figure came by 1964, is shown by the bar on the right in the bottom left sector, to almost half of the total true level of unemployment in the United States.

Even if we adjust that for statistical difficulties and interchangeability, I would state it as a proposition that one-third to one-half of all of the unemployment in the United States today is directly due to the excessive swelling of the nonfarm population by people forced off the farm in the false thought that if they went somewhere else everybody would be better off.

We have two explanations of why farm income has gone down, and they are, of course, in conflict with one another. The first explanation is that the farmer is "inefficient." Let us just look at the two right-hand bars in the top segment of chart 10. Using 1947 as a base, farm productivity has gone up 176 percent, and nonfarm productivity or output per man-hour has risen about 56 percent.

So, despite all the marvelous technology and automation in American industry, the farmer per unit of labor exerted has increased his productivity and output about $2\frac{1}{2}$ times as fast as the nonfarm of the economy, allowing for compounding.

The economic significance of this is that, while others through the price mechanism, through restricted production, through collective bargaining, are able to translate their productivity gains into income for themselves, the productivity gain of the farmer works against him, and he is penalized for that American virtue which we, in our think-

ing, rightly place at the top of all economic virtues, the ability to make two blades of grass grow where one grew before.

Chart 11 traces rising yields per acre, chart 12 indicates total increases in farm output, and chart 13 shows how the ratio of employment to output has declined more rapidly on the farm than elsewhere.

The opposite explanation, strangely, of the farmer's trouble is that he has been producing surpluses. Before putting up the chart, let me say a word about the surplus issue.

I am not softhearted on the surpluses, but I am going to make an amazing statement, and then seek to defend it. But first, even if the farmer were producing bigger surpluses than others it would be defensible and understandable on the ground that he is in millions of separate little units operating on a yearly or seasonal basis, subject to the fortuities of weather, and largely uncoordinated. The other producers have complete control over their production. They operate in large, massive units. They can turn the power off when they want to. Yet the statement I make is that, even without allowing for this, agriculture as a whole has made a marvelous record in a flexible economy of adjusting its output to current consumption, when compared with any other group.

Now, there is a reason why it is difficult to appreciate this. If you produce wheat or corn, and it is not used right away, the people see the surplus wheat or corn.

If the automobile industry—and I am not criticizing it—or the steel industry or any other industry makes the tremendous economic mistake of expanding its plants far beyond the economic take in the form of consumption or distribution, it does not go on producing steel and cars, so you do not see the steel and the cars piling up. The surplus takes the form of unused plant and unused manpower. Yet it is obviously a great national cost. And the consumer pays for it.

As the steel industry was making good profits when it was operating at 55 percent of capacity, as it did for many years, the consumer paid for it, and the consumer pays for the fact that the automobile industry, even in the fantastically lush year 1964, was operating at 13-percent unused capacity.

Now, taking that into account, as chart 14 shows, in 1964—and I could go back over the past years, but I did not want to belabor history—if we look at all farm production in the United States, the proportion of it produced in 1964 but not currently consumed in 1964 was 0.6 percent. The proportion of automobile capacity idle, as I have said, was 13.7 percent. The proportion of steel capacity idle was about 21 percent, on a much bigger base, and at a much bigger cost. The proportion of unused capacity through the whole American economy was about 12 percent, and unemployment, as fully measured, was 8.3 percent, and even as officially measured was about 5 percent.

Chart 15 sheds additional light upon the farm surplus issue by comparing the accumulated surpluses with annual use.

Now, I think one of the things we have got to do, without minimizing the significance of the farm surpluses, and I will come to that, is to try to get the 93 percent of the people in perspective on the realities of these farm costs and these farm surpluses, relative to those in other parts of the economy.

Now, let us move on a little bit with these charts, which I am deliberately hurrying to save the committees time.

Quite apart from what I have said, let us be realistic about who is supporting what, and at what costs. With so much steel capacity idle, how much of the steel product of the United States is being supported by Government outlays, albeit for the necessary purpose, shall we say, of national defense?

How much does this cost, compared with the costs of the farm program? What a difference there was in the care we took not to discommodate or disturb any industry when, after World War II, we were disposing of countless billions of surplus property coming to 20 or 30 or 50 times the size of the farm surplus; how careful we were not to put the interest of the Government in making a profit on their disposition above the needs and legitimate interests of the industries involved.

The CHAIRMAN. At that point, I put in the record last year, I think it was, that the cost to the Government of converting from war to peace was about \$47 billion altogether.

Mr. KEYSERLING. Conservatively; it certainly was.

The CHAIRMAN. And the total costs of the farm program from 1933 to the present are now about \$41 billion.

Mr. KEYSERLING. Yes, but the conversion extended over only a couple of years; the farm costs you cite expend over three decades.

The CHAIRMAN. So you never heard a murmur about the conversion of industry from war to peace. But you hear a lot of criticism about the money spent for farming.

Mr. KEYSERLING. Now I am still talking about the first aspect, the education of the American people, because I do not believe, without that, that we can do anything to win needed support even if the farm program costs go down to \$1 or \$2 billion. I will come to the other points, how we can get the real costs down, and so forth.

The real reason for the farm trouble, therefore, is not inefficiency, is not the surpluses in themselves, but is the simple, understandable fact that that the farmer is buying his goods in a controlled market and selling his goods in a free market. It is just as simple as that, and this is all that the parity ratio means. This is why the parity ratio has gone down from 115 in 1947 to, as I recall it, about 76 in May 1965. This next chart only goes to 1964, but in mid-May 1965 it was 76.

Let us remember that price parity—and I will emphasize this later—is not income parity. Even when the farmer was getting 115 percent of price parity, he was only getting about 63 percent of income parity, and the reason that looked so high was that everybody was accustomed to the farmer being so much depressed, so much poorer than others, that they all got in a sweat of concern about “favoring the farmer” when he was only two-thirds as prosperous as other people or only two-thirds as fairly treated.

I sometimes use a little analogy. If some people went over to an island and set up a new society, and they set up a price structure, and under that price structure it soon appeared that the people who were supplying everybody with food and fiber had 40 percent as much income per family as the rest of the people, and then they said, “We are going to help you farmers out and we are going to enact a subsidy program which will bring up your income from 40 to 53 percent,” I would say that the farmer was still subsidizing the rest of the economy, and I agree basically with what the gentleman said here,

so long as the American farmer is at 53 percent of income parity and is supplying 93 percent of the people and supplying himself, too, with foods and fibers, at an economic income take from the economy so much below that of others, he is subsidizing the rest of the American economy, whatever may be the nature of the farm program.

What are the things which ought to be done? I think there are three lines of approach. One line of approach is to improve the general performance of the American economy, because although the demand for food is relatively inelastic, it is not entirely inelastic, particularly if we have real programs to help the lower income people.

On chart 16, I have budgeted the consequences to agriculture of the deficient economic performance during the last 12 years. I am not going into this in detail, but just to say that farm marketings of foods have been reduced about \$49 billion by the inadequate economic performance in the overall.

So one of the aspects of this problem is to recognize the connection between the well-being of the farmer and our general national economic policies. I would mention especially, and not just as a matter of current controversy, this fantastic interest rate policy which is turning back the clock on the greatest reforms made during the 1930's of favoring in the true American way the real producer and the real enterpriser as against the people who really lend them back their own money, their own savings.

Chart 17 indicates the toll which rising interest rates have already imposed upon the farmer and some other vulnerable groups. I am not going to say much about this, but I have calculated that, over the past 13 years, \$50 billion in rising interest payments, with an inordinately high proportion of it borne by the American farmer, has been transferred from the pockets of the farmer, the small businessman, the homeowner, the consumer-purchasers of durables, and Federal, State, and local governments (which now together are paying \$6 billion annually in interest more than they should) and into the pockets of those who lend them back their own savings.

Chart 18 indicates the relationship between deficiencies in wage and salary incomes and the deficient outlays for farm products.

Let us move on to chart 19. Another approach would be a really effective effort to help the poor people in the country, including the farmers. I have computed here the actual level of food outlays by the poor people in the United States, as shown in studies of poverty as they relate to the demand for farm products, compared with desirable levels of food consumption on their part. It appears that 7 percent of the 1964 consumption of dairy products, 11 percent of meat, fish and poultry, 8 percent of fats and oils, 10 percent of vegetables, and 9 percent of all food products represents the difference between the actual total take and what it would have been if these poor people in the United States were consuming food, not at a lush level, not at a Delmonico's Restaurant level, but at the level of what we define as a nutritious and balanced and healthful American diet.

Chart 20 shows how the farmer has been adversely affected by the trends in consumer spending for food as against spending for other products, and by the increasing farm-to-market spread.

Chart 22 shows the instability of our exports of farm products. Putting aside what exporting policies we should follow, both on a

commercial basis and on a grant basis, I am not going to get into that here today, may I say that if we could somewhat simplify and streamline the complexity and conflicts among so many Government agencies—when I study the farm problem I can hardly count them—which are dealing in a thousand different ways with matters relating to our exports of farm products, we ought to be able to level out a little bit this fantastically erratic pattern.

I am not going into the question here of whether these exports should be at a higher or lower level. But the organization of the export effort is one of the most overcomplicated I have ever seen.

Towering above all of these factors in the farm income trouble is one dominant factor, as shown on chart 23 here.

The farmer buys in a controlled market but sells in a free market, and hence the price parity ratio moves inexorably downward.

What are my general conclusions? My first conclusion is that we are flying a substantially blind course on farm policy because the Congress is being asked every year to legislate upon farm policies without the kind of forward quantification and rationalization of what the farm problem is all about, which is not primarily a task for the Congress but rather for the executive agencies.

I think the purposes of American agricultural policies revolve around only three things:

First, to produce abundantly the expanding foods and fibers that we need for a growing population and rising standards of living, plus appropriate exports.

Second, to have the tools needed to do that job at top efficiency, the ability to buy the fertilizers and tractors required, and the human tools. Mind you, when I say people have been forced off the farm too fast, I do not want people to be kept on the farm if they cannot be used there. But there should be the size farm population that we need to do the farm job.

Third, under these conditions, a decent and fair share of national income for farmers.

I say that the Department of Agriculture—and I say this reluctantly—and the other agencies of Government which are proposing farm legislation, and arriving at conclusions as to specific farm policies, have not projected ahead on the basis that I am attempting to show here for 5 or 10 years ahead, what the U.S. farm output ought to be, assuming that we are going to use a part of our great agricultural productive capacity to overcome malnutrition among millions in the United States, and help fight starvation overseas. They are not adequately projecting ahead, allowing for the new technology and automation, what kind of tools we need for this, both inanimate tools and human tools. And they are not setting appropriate goals for farm income.

I do not think anybody can challenge the essentiality of any of these three projections, and I do not think anyone can fail to realize what must be the outcome when details of national farm policy are put forward without adequate regard for this kind of homework.

What does my own homework lead me to? Let me say here, I am not arguing necessarily that my homework is right. All I am saying is that I have tried to do it, within the limits of my resources. Maybe my figures are a little off, 5, 10, 15 percent, but they provide a demonstration of the problem.

What is my conclusion? My conclusion, taking all things into account, the growing needs of an American population, the rising standard of living we seek, the rising output per capita, the needs of industry at full employment, and some exports, my conclusion is that we will need in the future a level of American farm production, and by the future I do not mean 6 months ahead, I mean 5 years ahead and 10 years ahead, a level of output very much higher than now. I think the whole bedevilment of the farm policy, like other policies, is that every adjustment is made from month to month or year to year. Some people say if you take care of today, tomorrow will take care of itself. I think if you take of tomorrow, today will take care of itself.

We need a long-range approach. Taking all of these factors into account, I am convinced that our policies should be pointed to the idea that we need reasonably to stabilize our farm population rather than to have the farm population decanted at the rate it has been by income deflation. And I do not say this from the viewpoint only of the farmers, but I say it from the viewpoint of nonfarmers, because when I look at the rate of technological development in other parts of our economy, I do not see where these people are going when they leave the farm.

I think they can be used on the farm; I think they can be used to good advantage on the farm. But I would say that, even if this were not so, even if it led to some overproduction, it would be economically cheaper, socially more desirable, and cost less to the Government in the overall, than policies to date, because the Government is not just bearing the cost of the farm problem. That cost is a mere bagatelle compared to the costs of other programs such as the war against poverty and the war against unemployment, generated in substantial part by the mishandling of the farm problem.

On this basis, even if there was some overproduction, it would be cheaper economically and socially, and cost the Government less, to help these people be restored to a decent kind of living and a decent kind of productivity and a decent kind of income on the farm than to force them out to try to find a job in Detroit or New York or Chicago or the steel industry or the chemical industry or the electronics industry or anywhere else you could mention.

I do not think that these matters have been thoroughly considered by the nonfarm population, or even by the makers of our national farm policies, including these in the Budget Bureau.

In support of this phase of my presentation: Chart 24 projects to 1970 and 1975 my estimates of domestic per capita farm product consumption in a fully functioning U.S. economy. Chart 25 puts these projections on an aggregate basis. Chart 26 indicates food needs elsewhere in the world and chart 27 estimates full use of our farm resources, both at home and overseas.

Chart 28 indicates needed adjustments in farm productive resources, looking ahead to 1970 and 1975. Chart 29 sets goals for the structure of farms, and chart 30 sets goals for farm income.

Now I come directly to the matter of costs. I will first discuss what the costs are and, second, I will discuss how they might be reduced.

As to the actual costs, the cost of the farm program now to the Government, as conventionally measured, which has been reduced over the years, is now about 0.6 percent of our national production

compared with a Federal budget which is about 18 percent of our national production, as shown by chart 31. So, roughly speaking, the farm cost is about one-thirtieth or something like that of the total, which is a very much smaller ratio than the ratio of the farm population to the total population. Even if we cross out national defense, which is about half of the Federal budget, then we get a ratio of farm expenditures in the Federal budget to total nondefense expenditures about the same as the ratio of the farm population to the national population, quite aside from the fact that the incidence of poverty and other income mistreatment is so much higher in the farm economy than elsewhere.

I am not arguing from this that the farm program costs should not be reduced further. I will say that they should. But I am arguing from it that, insofar as an immense practical legislative problem arises from the fact that nobody recognizes and appreciates the facts I have cited except for a few discerning people, that the 93 percent of the American people would be shocked and amazed to learn the truth:

They would be amazed because the newspapers and press and television and, I am sorry to say, the economists and the people in the Budget Bureau and, sadly enough to say, even some people in the Department of Agriculture have contributed to the misinformation, wittingly or unwittingly.

On this matter of costs, there is one other aspect I will call your attention to, as shown by chart 32. The cost in the Federal budget is exaggerated, because it does not factor in the recoupments, and when one factor in the recoupments on the CCC program, the actual costs of the program year by year are 15 to 20 percent less than are conventionally shown by the Government, and 15 percent is a lot of money when talking about how much the farm program costs.

It is perfectly true, also, that a lot of the activities charged to the farm program ought not to be charged there at all. I think the President took a very good step in the fiscal 1966 budget for the first time, when he shifted from the farm program to our international costs certain overseas operations, which I am here neither defending nor supporting, but he recognized for the first time, although it had been said for years, that this should not be charged to American farmers as a cost they are imposing upon the American economy. I rather doubt whether rural electrification should be charged to the farm program. I could mention other things, certain types of loans, certain types of research.

My published study from which my analyses is drawn is "Agriculture and the Public Interest" (February 1965), which I shall be glad to furnish to anyone requesting it.

How can we reduce the costs, after being careful not to overstate them.

First of all, I think that the ultimate costs of the farm program, as they fall upon the Government, are determined more by the success or failure in helping farm income than by the immediacies. In other words, it is throwing out the baby with the bath to hope to reduce the costs on the Government books in the long run by doing things which have an injurious impact upon farm income. Unless the farm program is abandoned entirely—which would be disastrous—hurting farm income increases public costs in the long run.

I think a second way of reducing costs would be this, and this has come up before, and I know it is controversial. I think from a practical viewpoint, in view of the 93 percent of the people who are not farmers, that we ought to get to the proposition that the Government is helping farmers not because they are farmers but because they have low incomes. Does this seem like such an extreme thing? In other words, when we enact an old-age insurance system which costs billions of dollars a year, wherever the money comes from, and it costs incomparably more than the farm program, we do not help everybody. We help people who because they are old and, furthermore, we do not help them on the basis of their earning power or their incomes or their volume of production.

We have a standard of need in general which applies to them as old people, which represents the national concept of how much help they should get from the American people as a whole. It may be different for a big family than for a small family. It may be different for a man of 65 than for a man of 62, but we help them because this is a specific kind of need, and the American people support it, although even now only 6 or 7 percent of the people are old. We do not extend to some old people a thousand times as much help as to others—but we do this as to farmers.

Rightly or wrongly, the American people seem to be supporting fairly well the new antipoverty program, although it is going to process only about 200,000 people a year for a long time to come, and even if it processed all of them they are only a fifth of the population. Here again, we do not give a thousand times as much income help to some as to others.

Therefore, I think we should find ways, and the techniques are fairly well known, to direct the farm income—help given by the Government to those farmers who need it and in the amounts they need it, whether you do it by an income limitation, whether we do it by an admixture of price supports and income supports—these are matters that can be worked out. But I think that, unless within a short period of time, and I know it cannot all be done at once in this current legislation, unless we get across to the American people that this sector of the American people are being helped because they are Americans and because they are poor, and because they are being mistreated, and not just because they are a farm group, I think unless we do this the whole farm program is going to be dead and sunk within a few years, and this would be a great tragedy for American agriculture and for everybody else.

Now, on the parity issue: I think too much discretion—and I am speaking very frankly—is being given to the Department of Agriculture. I saw some illustrations of this in what was said here this morning.

I have been in Washington a long time. I think I have a fairly good, balanced idea of the respective roles of the Congress and the executive, I think Congress, to a large degree, should be a policymaker, although I think there has got to be some flexibility.

Let me give a specific example, and I know there are differing views here about. I hope those who do not agree will bear with me, because I am just expressing a view. I think it is a little illogical for the Congress itself to recognize that 100 percent of price parity is only

about 63 percent of income parity, to legislate permissively this 100 percent of price parity, and then to authorize an administrative official to carry that at any time he wants to as much below 100 percent as he sees fit, down to a statutory floor of 65 percent.

I would rather have the Congress, if they think 100 percent is too high—and I do not see how it is since it is only 63 percent of income parity—establish a fixed policy and not let an administrative official, who more and more—and I say this in no criticism of the current Secretary for whom I have the highest regard—is listening with one ear to the farmers needs and with two ears to the 93 percent who have misconceptions about agriculture, render much less help to farm income than the ceiling of help which the legislation permits, especially when even this ceiling is so far short of income parity.

There are plenty of other agencies, and there are plenty of labor unions, and there are plenty of business organizations, to protect this 93 percent. The Department of Agriculture exists to help the farmer, and by helping the farmer to help powerfully the rest of the American people.

I think that is proper and, therefore, I think that the Congress should consider whether maybe there has not been too much flexibility and discretion, not only on this point, but on other points in farm legislation.

That is another element of the policy, and I am not addressing myself to all the details of these bills, although I have studied them carefully. I am just addressing myself to some points where there is opportunity for some adjustment in what the Congress does this year, as a basis for longer range action. I come here to the matter of the disposition of the surpluses. I want to say something about that, particularly because it was discussed this morning.

First of all, I would again call to your attention what I said earlier, that this problem of the surpluses, while serious, has been terribly magnified relative to the real nature of the American economy. We do not operate under a lock and chain economy where every blade of grass and every car and every man is directed by an all-powerful dictatorship. We have a flexible economy and that flexible economy creates a lot of misguesses everywhere between production and use. But in the case of agriculture the error is lower, not higher, than anywhere else, much lower on any kind of fair basis. We should take that into account. But willy-nilly, nonetheless, the Government does acquire farm surpluses.

In this context, I want to state a general proposition, without getting too much into specific application. I say that the Government does not acquire surpluses to show that it can do a good business job on them. The Government has no right to be in business per se. The Government has no right to acquire farm surpluses just to dispose of them at a profit. The Government acquires the surpluses under congressional legislation only for one proper purpose: to help agriculture have better income. Under these circumstances, it then seems to me to make no sense for the Government to acquire the surpluses to help agriculture, and then to dispose of the surpluses in a way that competes with the farmer or even represses farm income.

Therefore, I think there is merit in the proposal, without going into all the details, that the margin between the level at which the Govern-

ment supports farm prices—and I have already said how much flexibility I think should be allowed the Secretary of Agriculture there—and the price at which the Secretary of Agriculture through the CCC, pours the commodities which it has collected back into the the market, ought to be large enough to represent a policy of cauterizing the surpluses from the current production and disposition of food-stuffs by farmers. There would be some cost maybe in this policy, but I do not think it would be much compared with the benefits.

I think it would be less than the cost of the impact of the competitive Government disposition upon sales by farmers which, in turn, means that it costs the Government more the next year to support farm income.

I would go so far as to say, when you get really down to the economics of it, that if we said about the surpluses that we will dispose of those only at prices which do not in any way compete with or impair the product and disposition of farm products by farmers in in the open market, we would, in the long run, do what is better for the Government and, in any event, we would do what is better for agriculture.

Specifically, for this reason I favor the 115-percent level in the case of CCC dispositions.

Now, the problem the Department people get into—and I say this without any desire to criticize them—is that they are in a constant tug between making a showing on their yearly ledgers and making a showing for American agriculture, and I am not a big budget man or a Government spending man; but the farm program was set up to help farmers, not just to make a showing on the Government's books.

The farm program was set up to make a showing by protecting and advancing the incomes of American farmers, in view of the fact that in the open market they are now getting only 53 percent of income parity generally, and only 63 percent even with 100 percent price support.

Whatever is good for this purpose is an honorable vindication of what has been the real intent of farm legislation from the beginning, and here again, I strongly advise getting more toward congressional determination of these measures, without allowing quite so much flexibility to administrative officials. If this committee agrees that 100 percent price parity is not too high—and it is not—I submit that this committee should not authorize the Secretary of Agriculture to go down to 65 percent.

Now, I have, I think, about covered what I intended to say on this. I hope the more extensive material that I prepared here at much labor and much thought will be of some help to you.

The CHAIRMAN. Well, I am very hopeful that you can prepare these charts so that we can put them in the record. I am sure it will be very interesting to the members of the committee who were not here.

I do hope that they spend a little time studying it and reading it. I want the Department to get some of this, also.

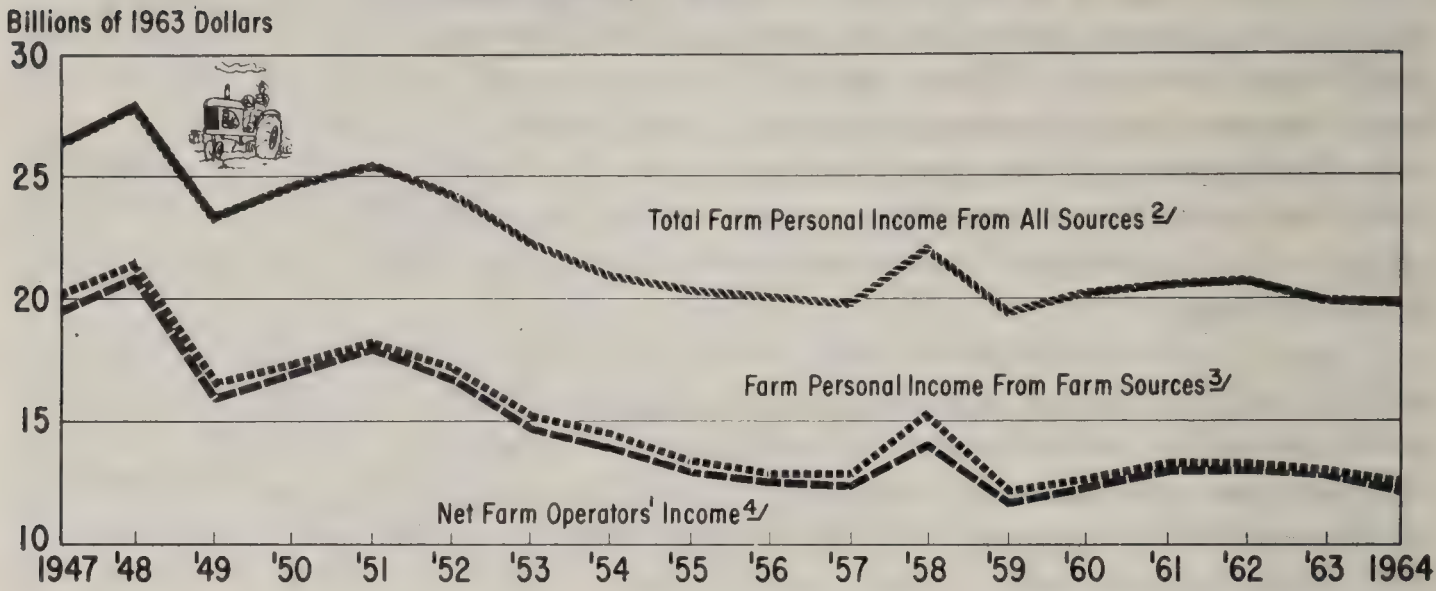
Well, thank you very much, Mr. Keyserling.

Mr. KEYSERLING. I appreciate the opportunity to testify.

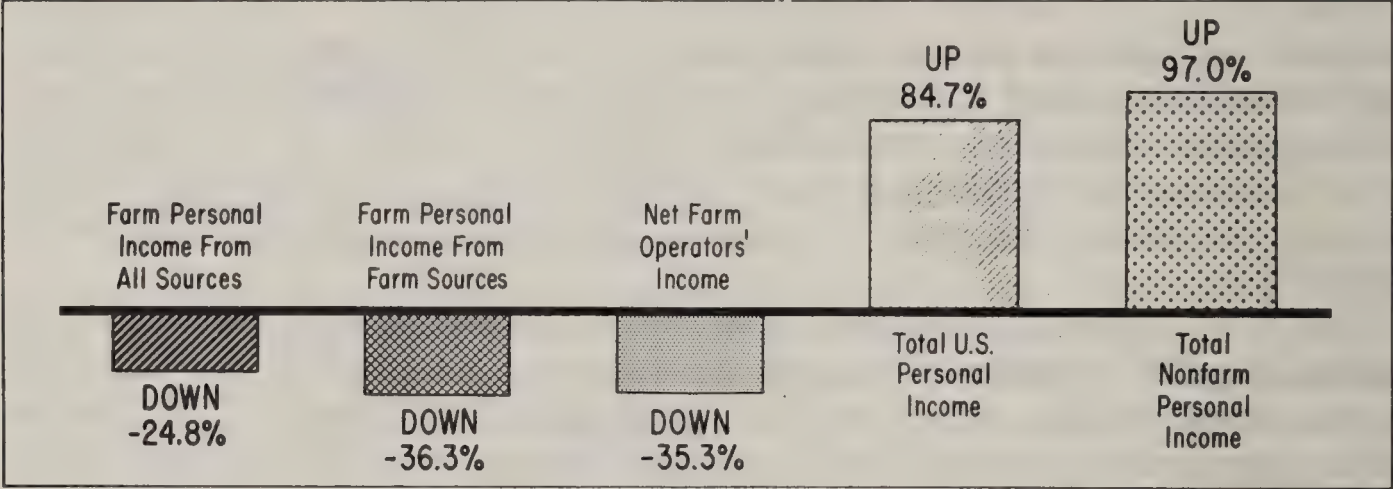
(The charts referred to above and Mr. Keyserling's prepared statement are as follows:)

CHART No. 1

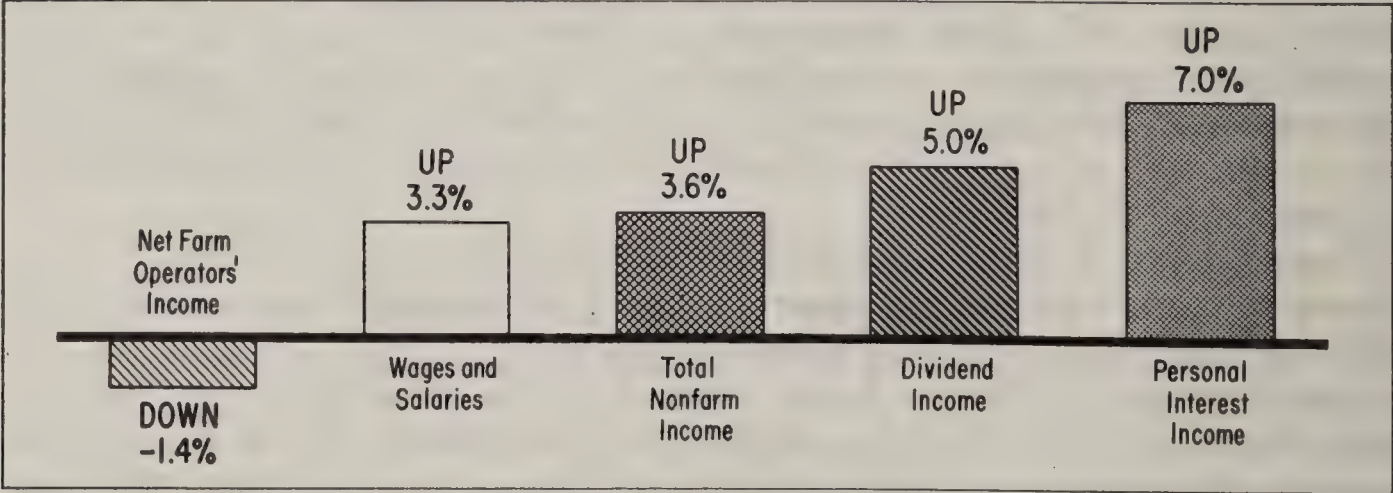
DECLINING FARM PERSONAL INCOME, 1947-1964^{1/}



DISPARITIES IN INCOME TRENDS, 1947-'64^{1/}
Percentage Changes 1947-1964, in 1963 Dollars



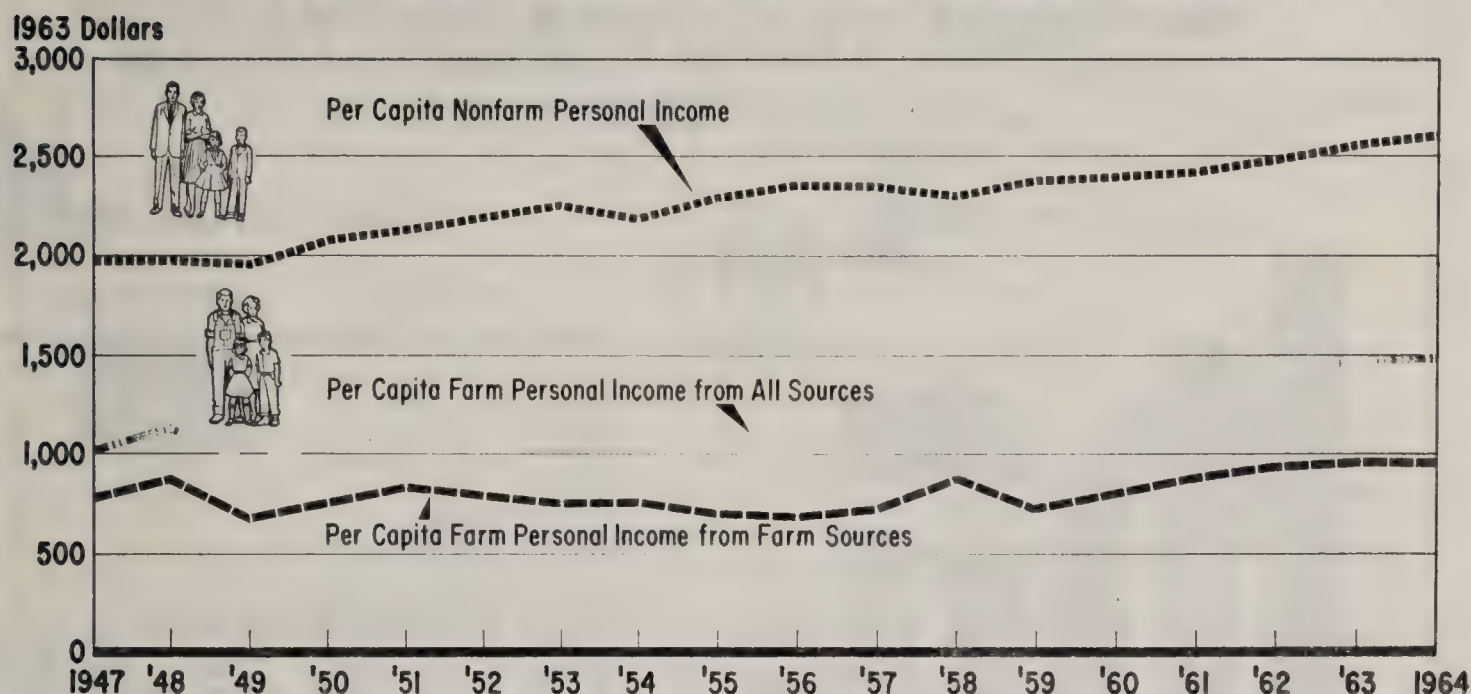
STILL MORE RECENT TRENDS, 1953-1964^{1/}
Average Annual Rates of Change in 1963 Dollars



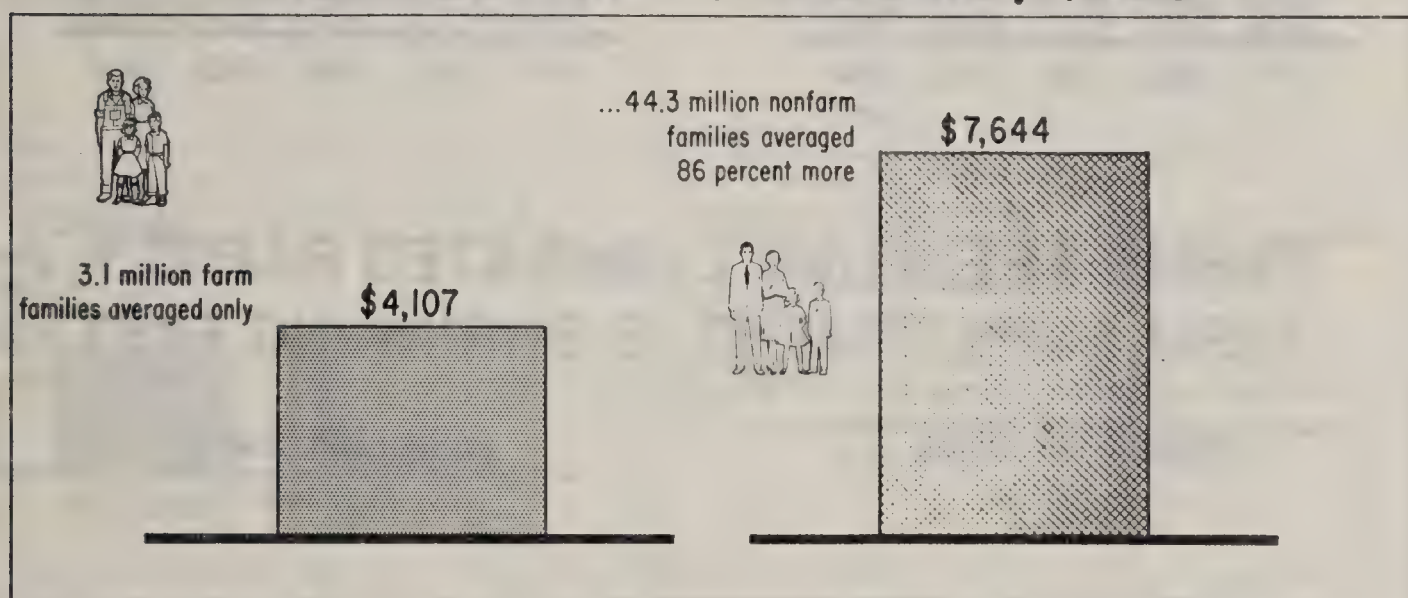
^{1/} 1964 estimated on basis of first three quarters.
^{2/} Total farm personal income is total net income, before taxes, and includes income of farm people from farm and nonfarm sources.
^{3/} Farm income from farm sources is net farm operators' income of resident farmers, plus wages of farm resident workers and their nonmoney income, less social insurance contributions.
^{4/} Net farm operators' income is their income from farm marketings, less production expenses; their nonmoney income; Government payments; and adjustment for inventory changes.

CHART No. 2

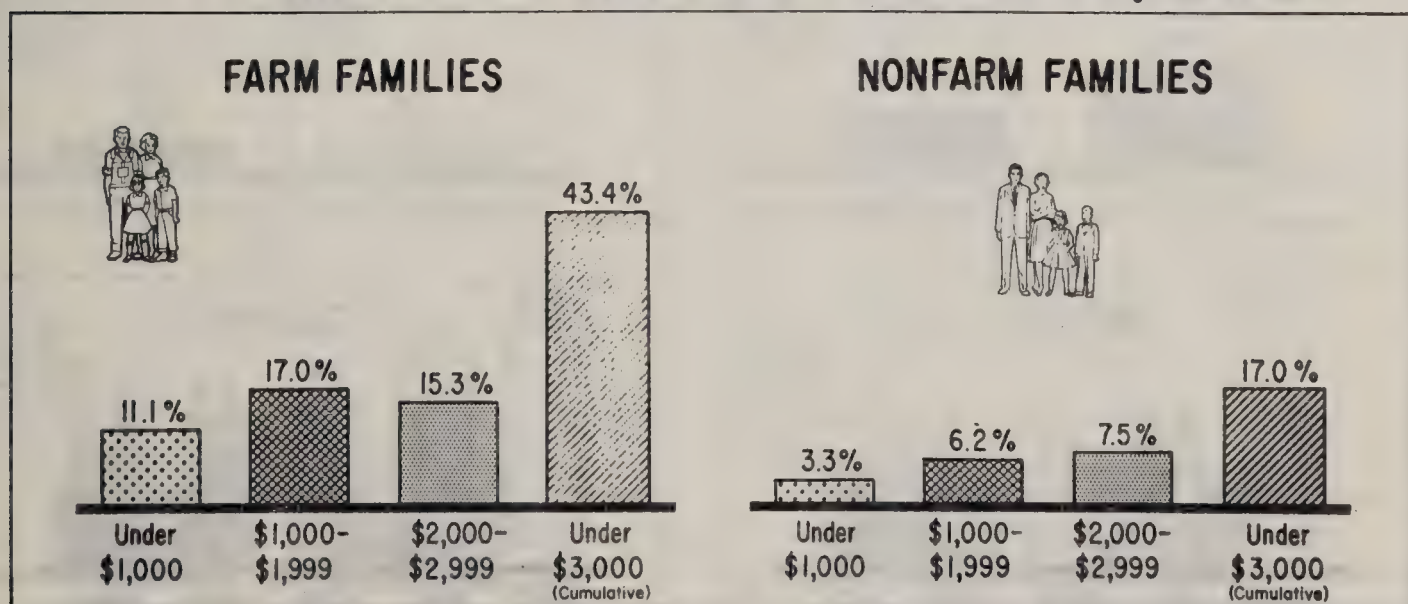
EVEN ON A PER CAPITA BASIS, 1947-'64^{1/} THE INCOME^{2/} DISPARITIES HAVE GROWN



MEDIAN FAMILY INCOME,^{3/} 1963



FAMILIES LIVING IN POVERTY, 1963^{3/}



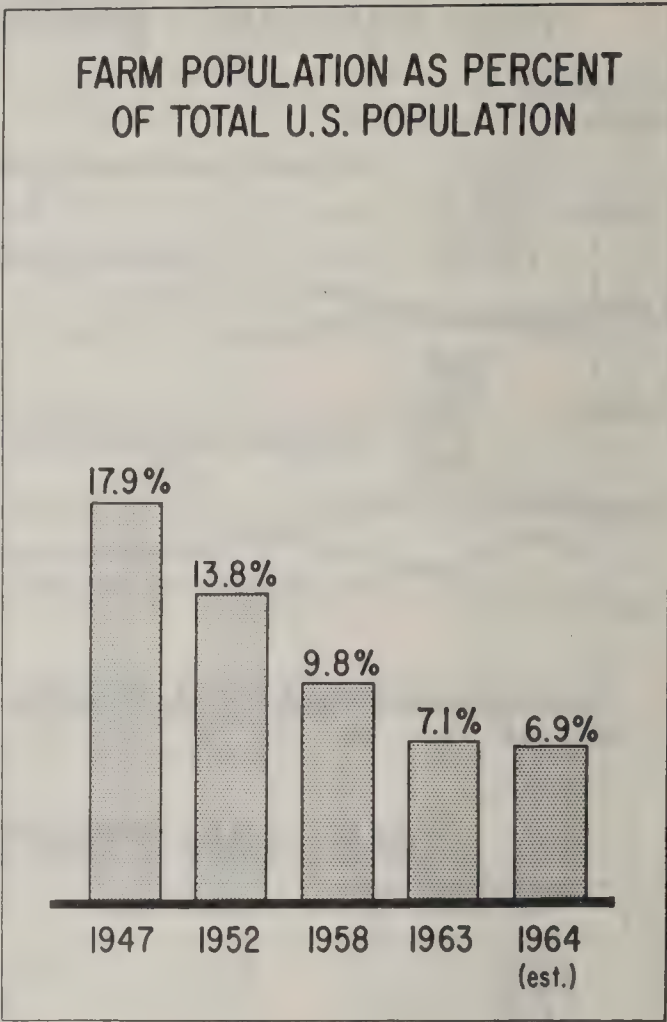
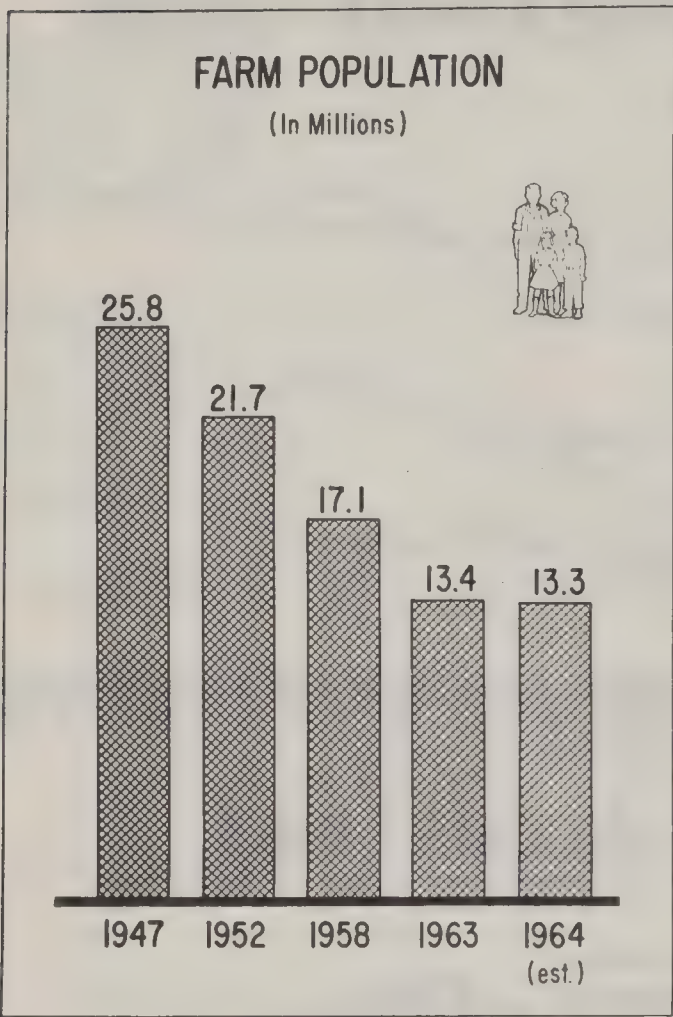
^{1/}1964 estimated on basis of first three quarters.

^{2/}Money and nonmoney personal income before taxes; Depts. of Commerce and Agriculture income concepts.

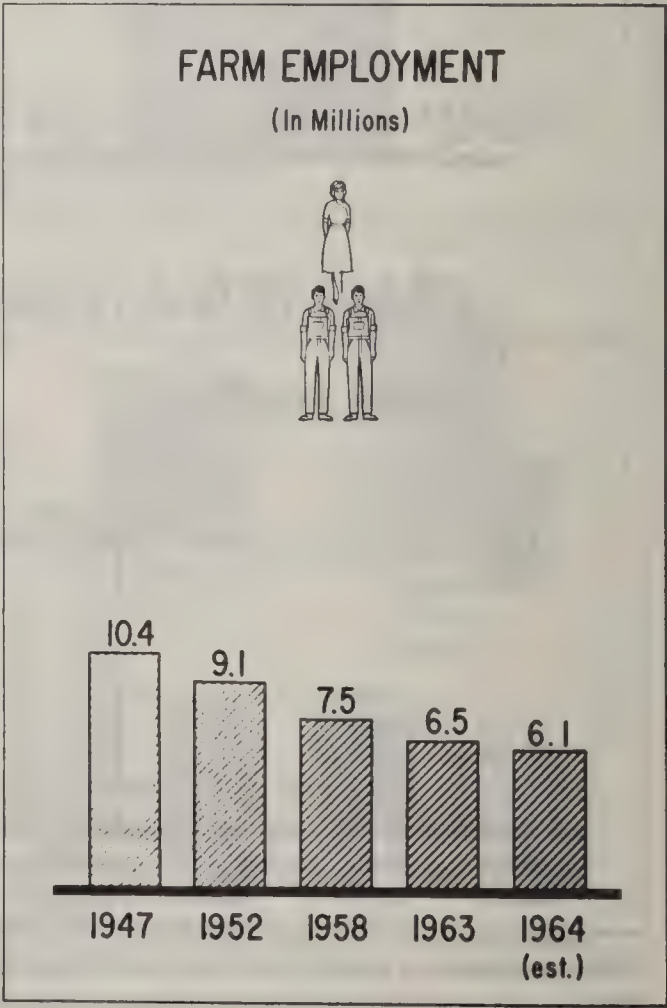
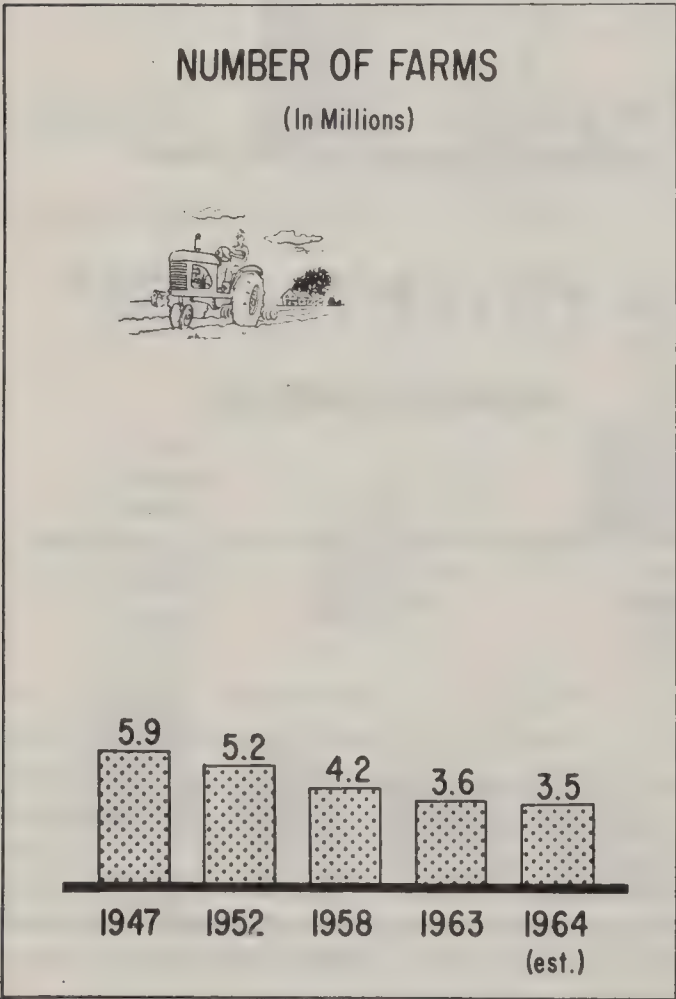
^{3/}Money income before taxes, in 1962 dollars; Bureau of the Census income concept.

CHART No. 3

DECLINING FARM POPULATION, 1947-1964



FARMS ARE BEING ELIMINATED RAPIDLY;
FARM EMPLOYMENT IS SHRINKING FAST



Data: Depts. of Agriculture and Commerce

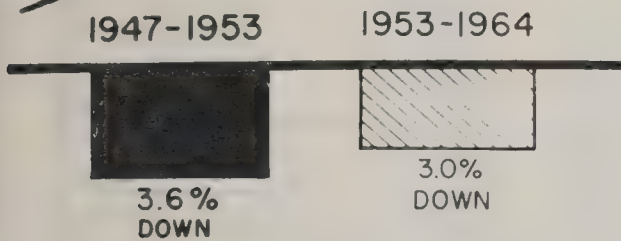
CHART No. 4

TOTAL CIVILIAN EMPLOYMENT TRENDS, BY INDUSTRY, 1947-1964

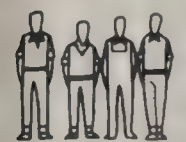
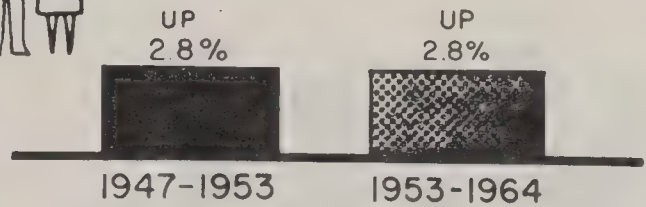
Average Annual Rates of Change



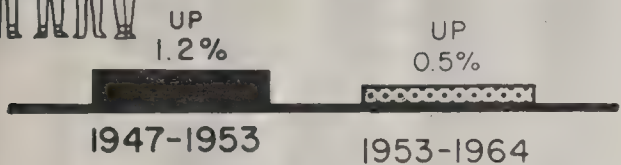
AGRICULTURE



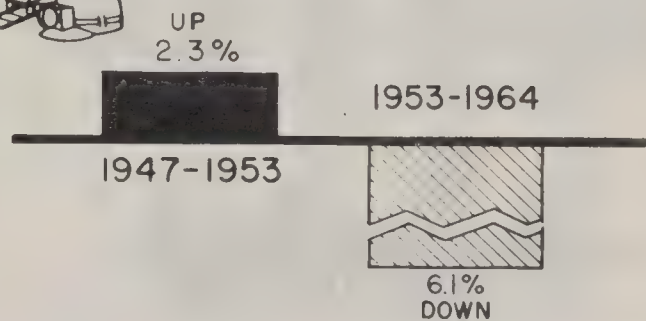
PRIVATE HOUSEHOLDS



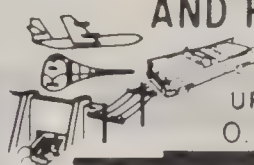
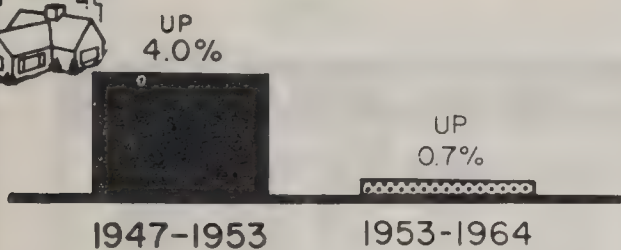
MANUFACTURING



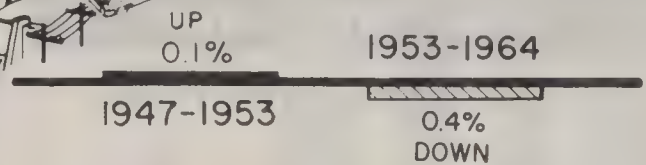
MINING



CONTRACT CONSTRUCTION



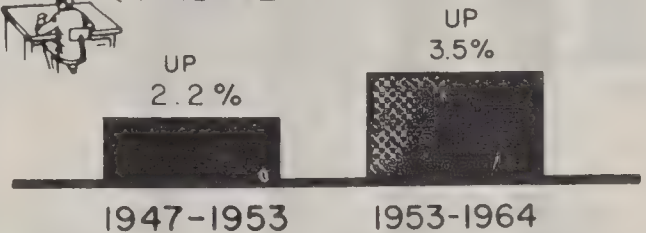
TRANSPORTATION, COMMUNICATIONS AND PUBLIC UTILITIES



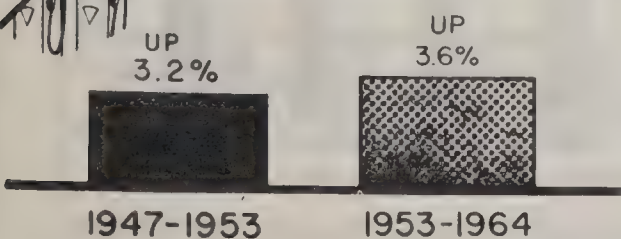
WHOLESALE AND RETAIL TRADE



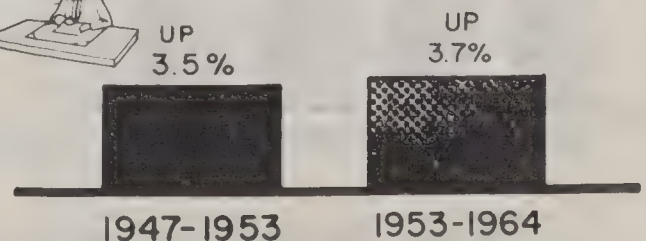
FINANCE, INSURANCE AND REAL ESTATE



SERVICES



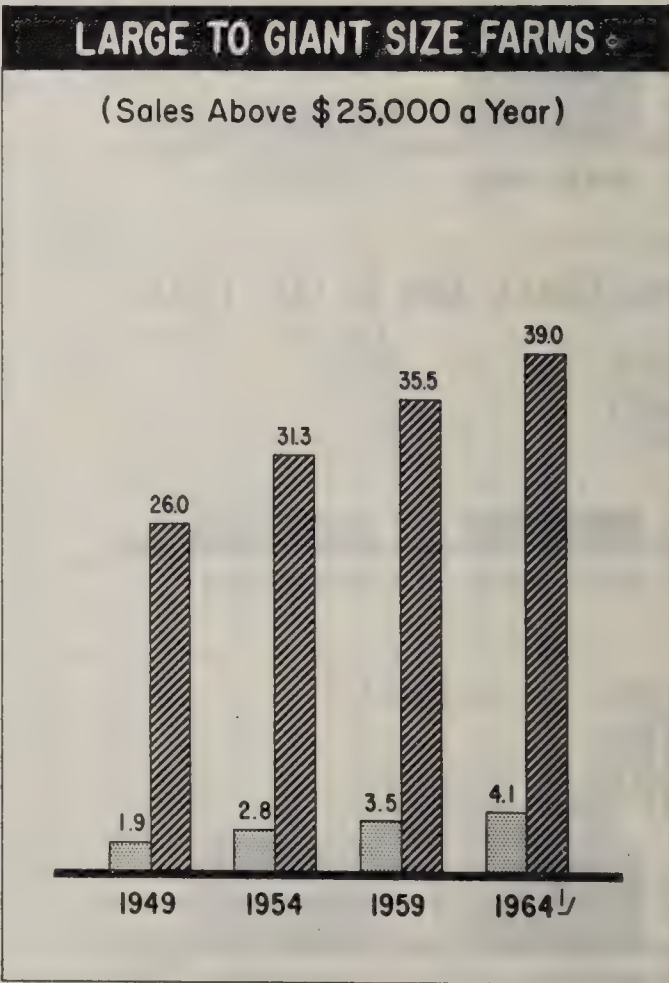
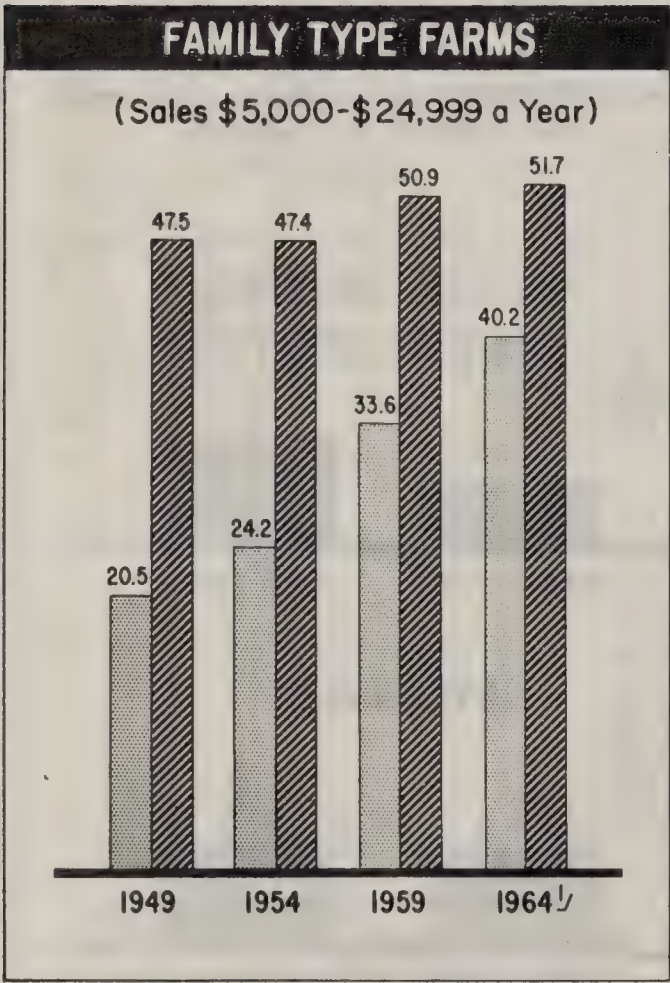
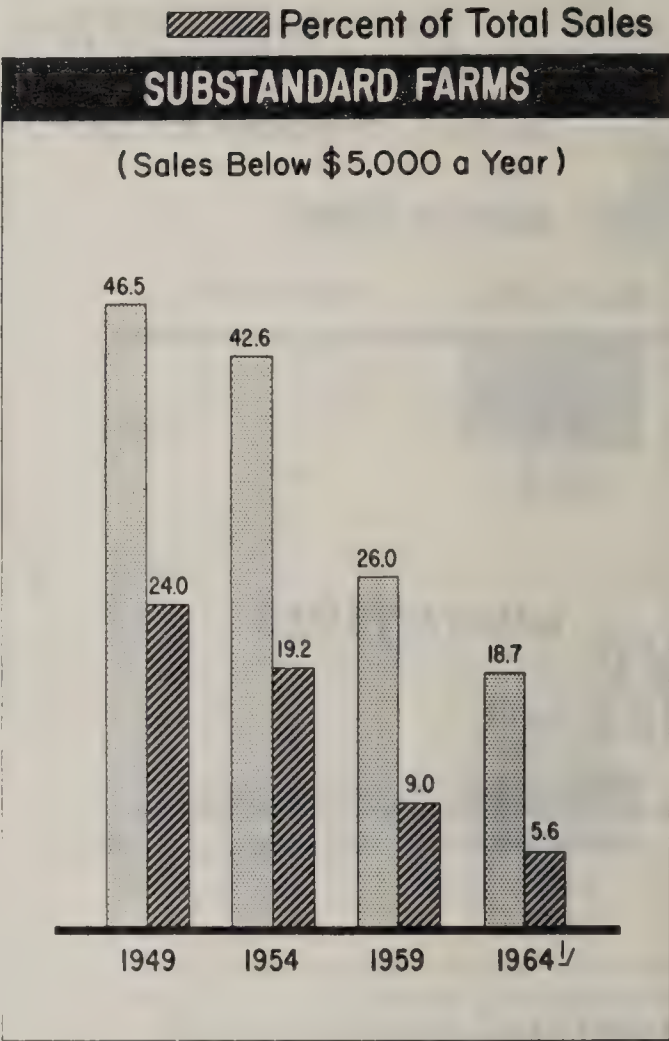
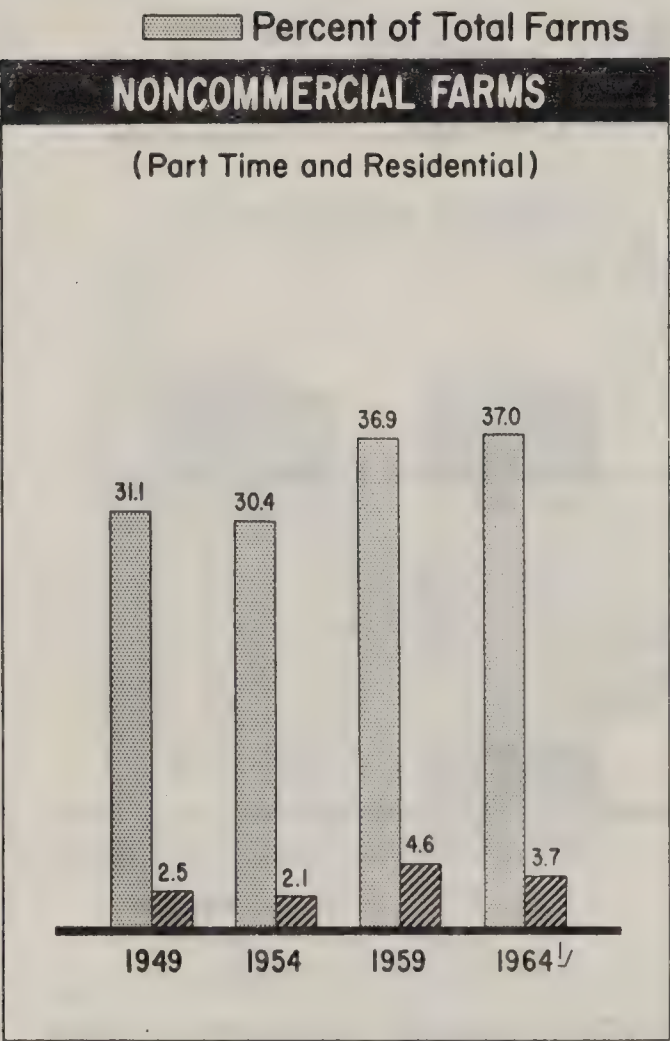
GOVERNMENT



TOTAL CIVILIAN EMPLOYMENT: 1947-1953 : UP 1.2%
1953-1964 : UP 1.2%

CHART No. 5

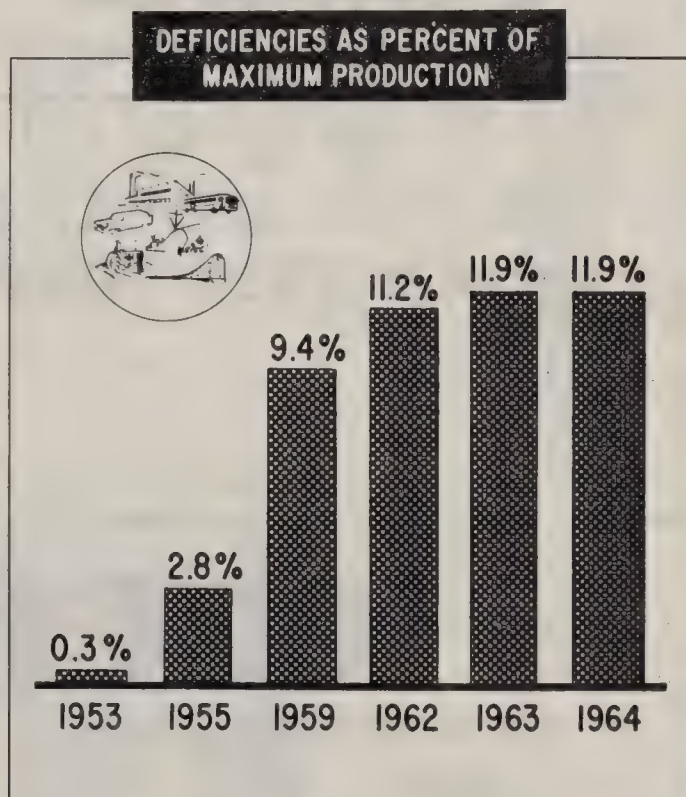
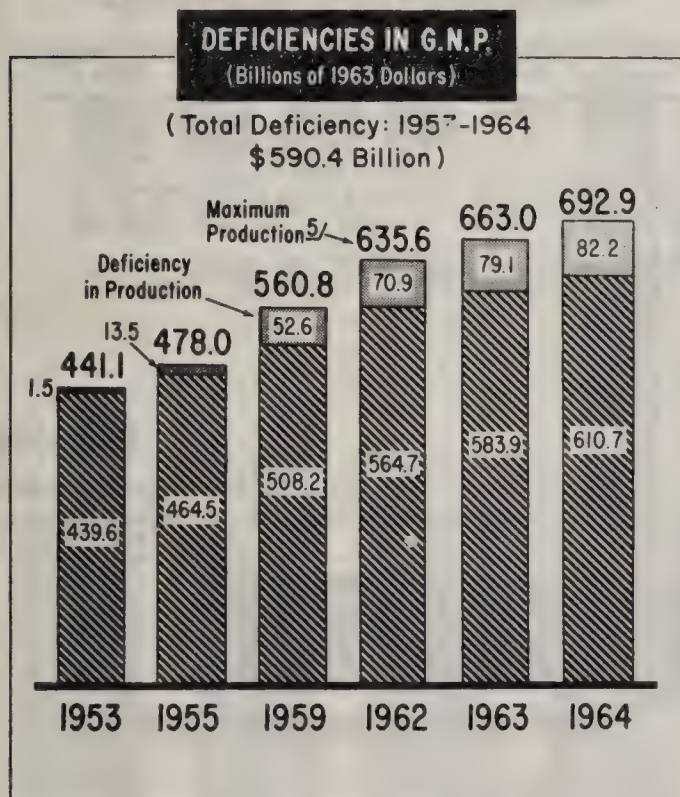
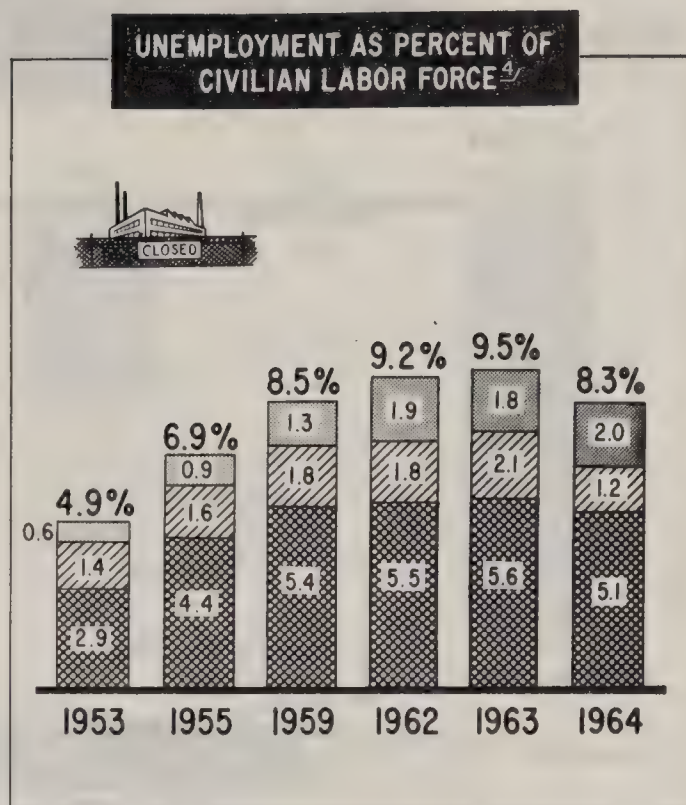
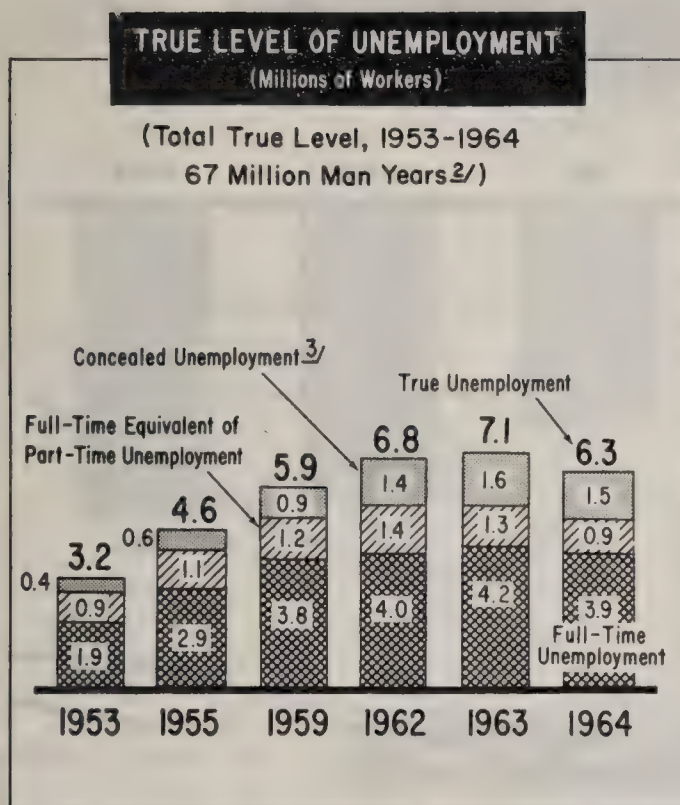
SHIFT TOWARD LARGE AND GIANT FARMS



^{1/}Census of Agriculture data for 1949, 1954, and 1959. 1964 data, CEP estimates.

CHART No. 6

CHRONIC RISE OF UNEMPLOYMENT AND OF IDLE PLANT, 1953-1964^{1/}



^{1/}Except for the base year 1953, no year during which a recession was in process is included.

^{2/}About 33 million man-years of unemployment (true level) would have been consistent with maximum employment.

^{3/}Estimated as the difference between the officially reported civilian labor force and its likely size under conditions of maximum employment.

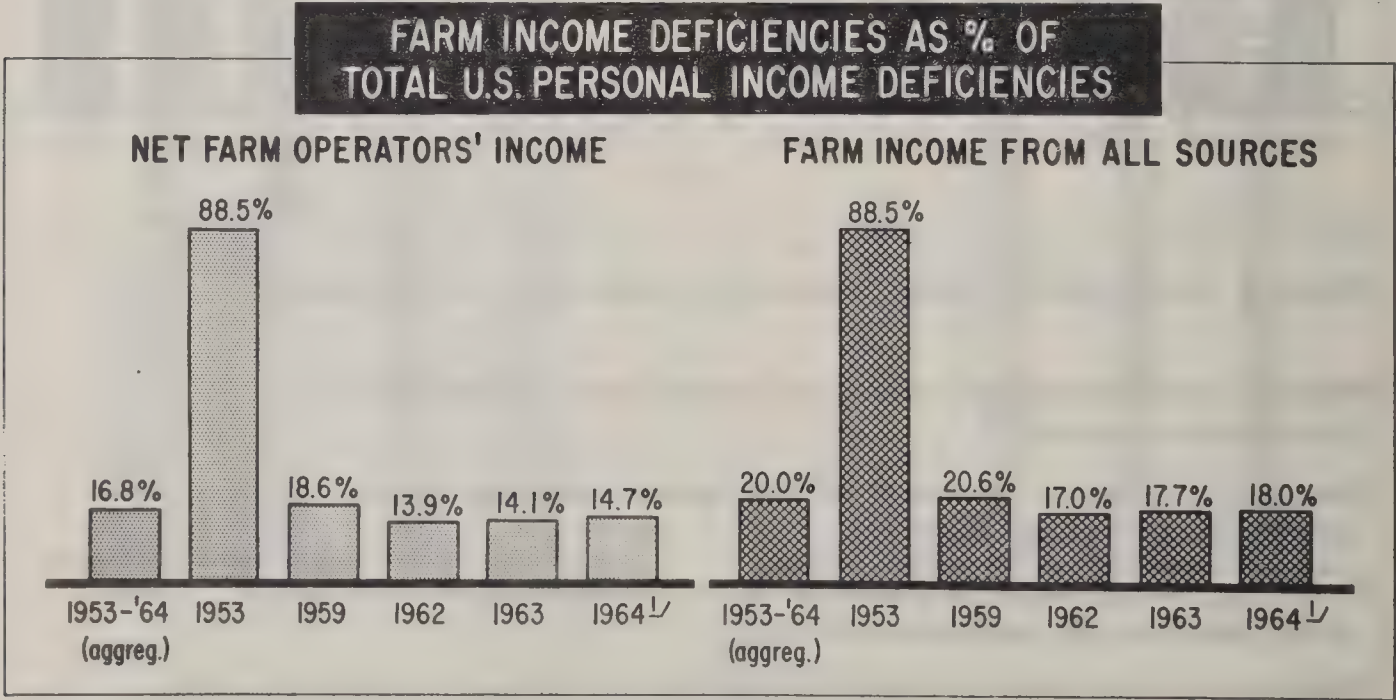
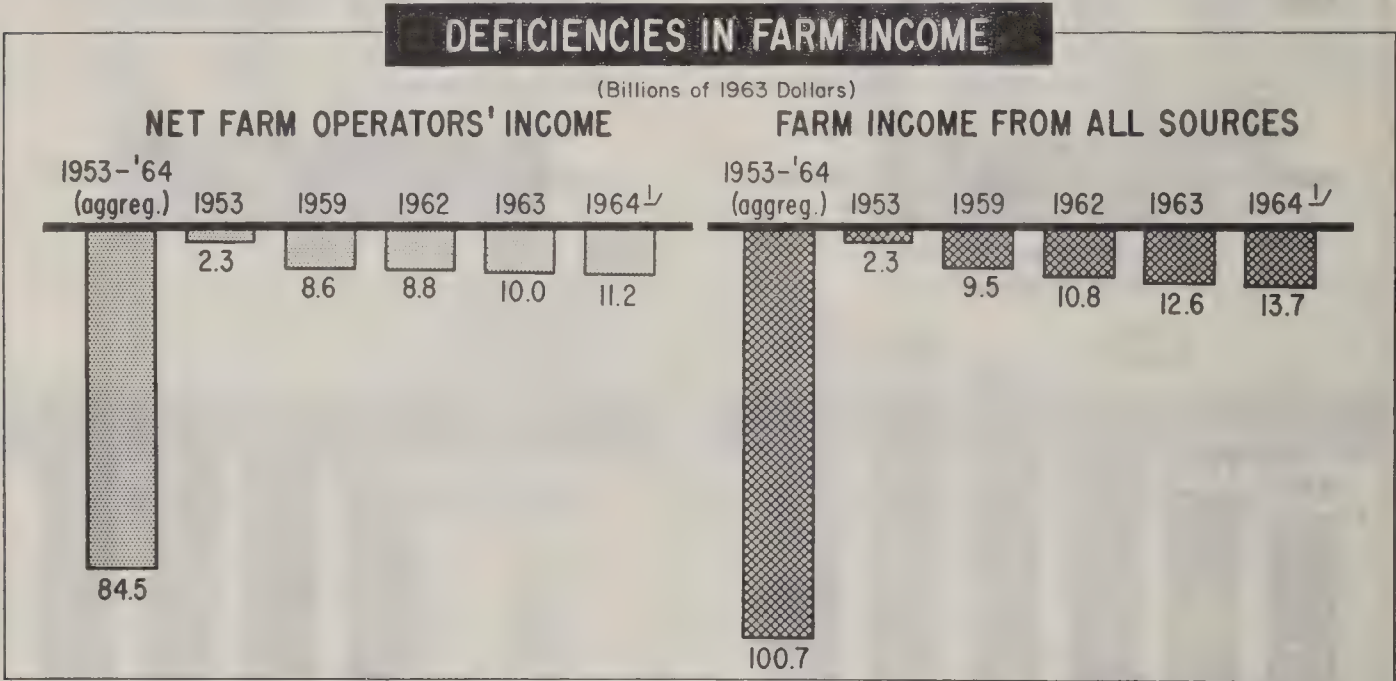
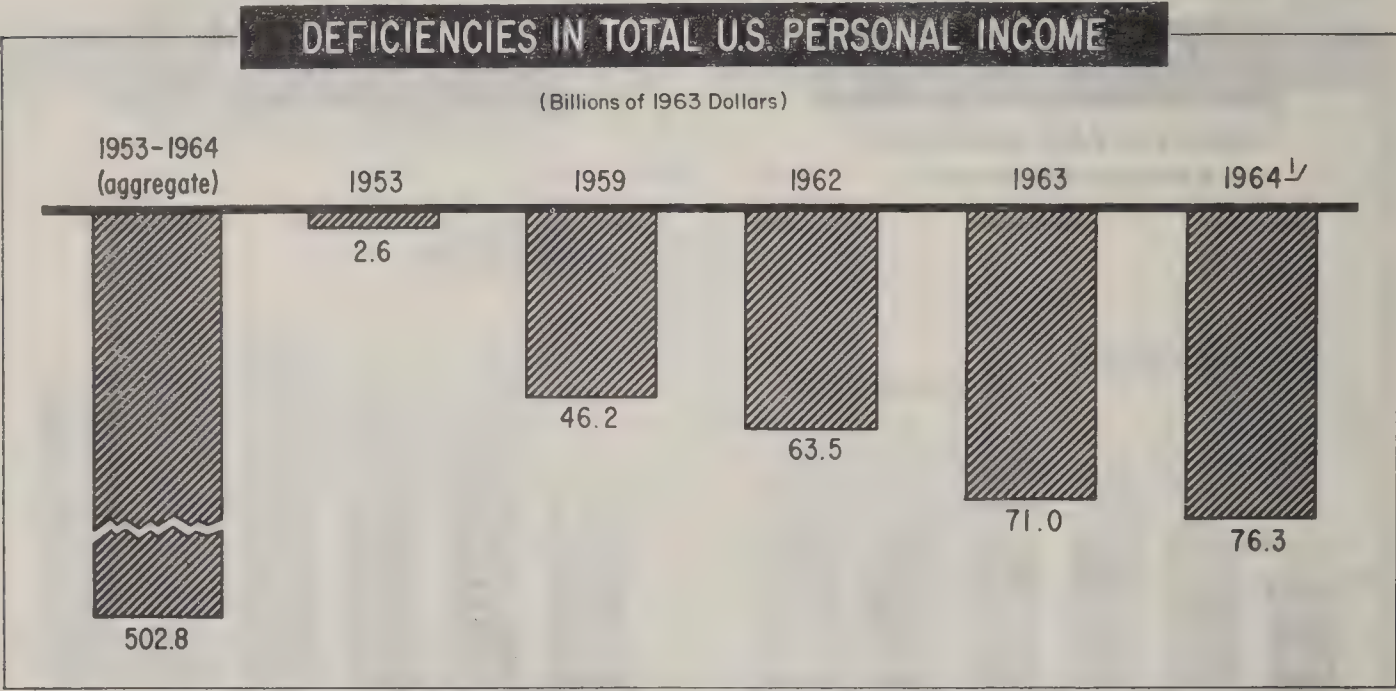
^{4/}In deriving these percentages, the civilian labor force is estimated as the officially reported civilian labor force plus concealed unemployment.

^{5/}Based upon sufficient annual rate of growth in G.N.P. to provide full use of growth in labor force, plant and productivity under conditions of maximum employment and production.

Note: In 4th Quarter 1964, seasonally adjusted, True Unemployment was 6.2 million workers, or 8.1% of the Civilian Labor Force; the GNP deficiency was \$87.2 billion, or 12.4% of maximum production.

CHART No. 7

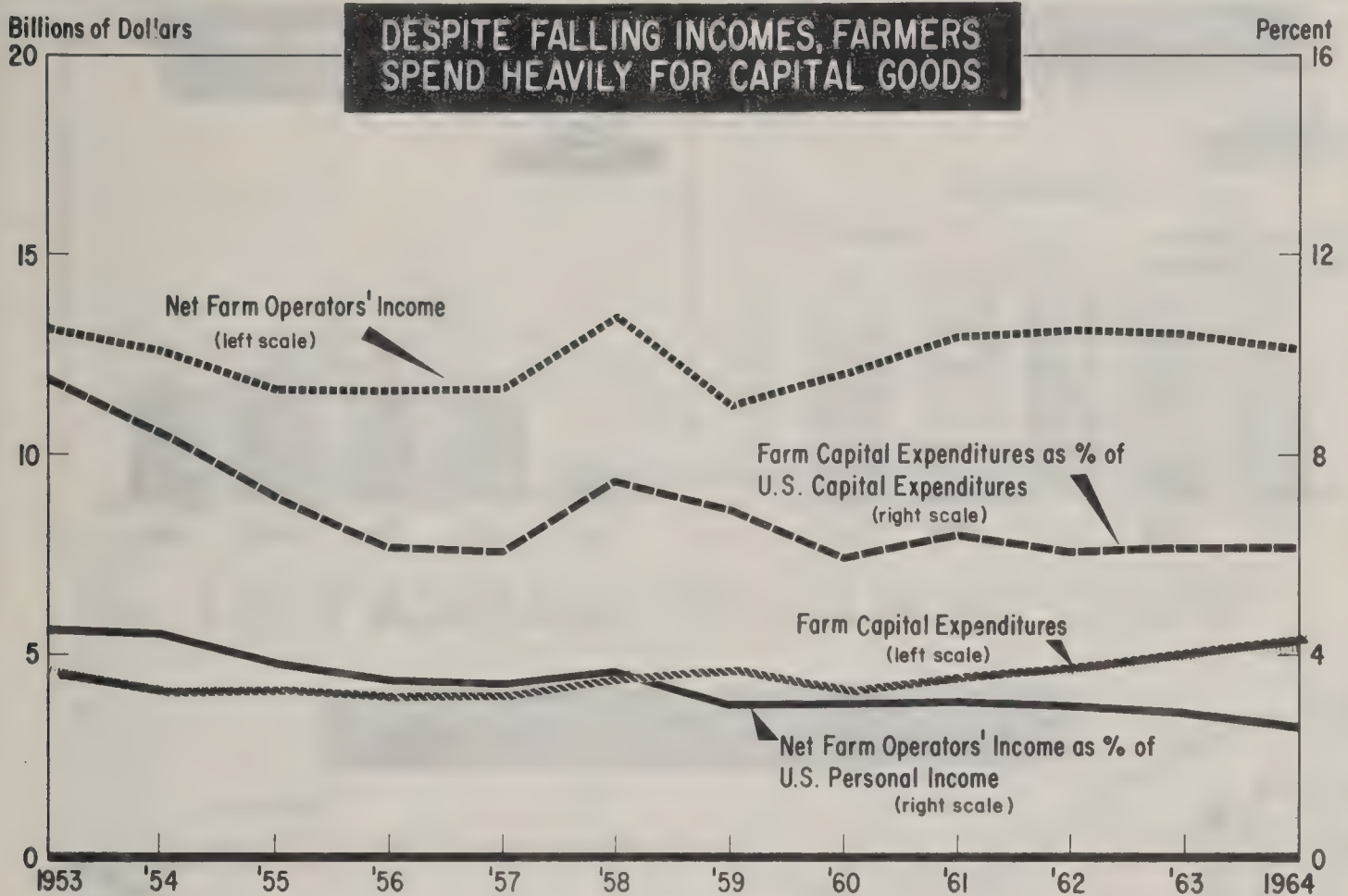
IMPACT OF FARM INCOME DECLINE UPON
U.S. PERSONAL INCOME DEFICIENCIES



^{1/}1964 estimated on basis of first three quarters.
Data: Actuals, Depts. of Commerce and Agriculture; deficiencies, estimated by CEP

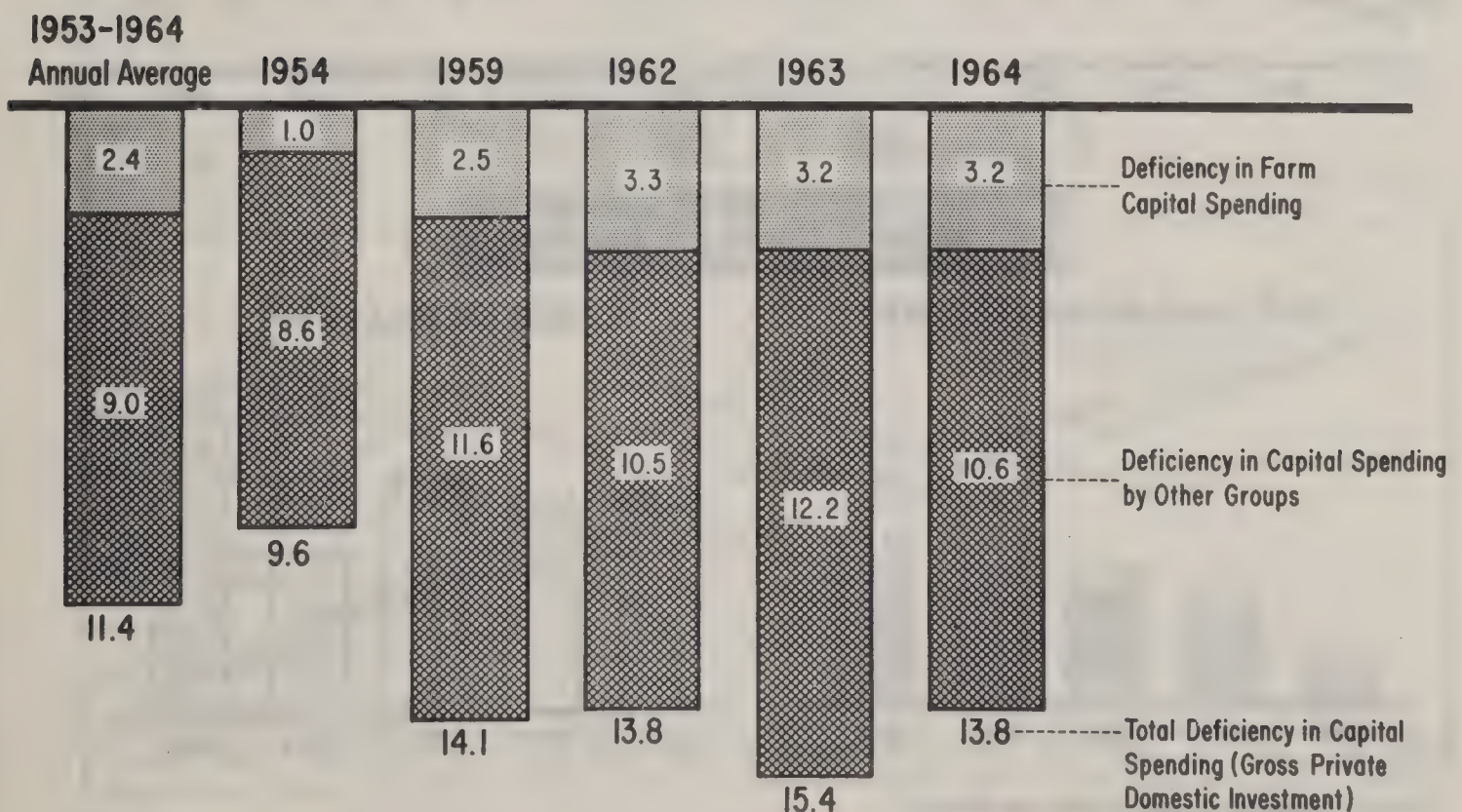
CHART No. 8

IMPACT OF FARM CAPITAL SPENDING UPON TOTAL U.S. CAPITAL SPENDING, 1953-1964^{1/}



DEFICIENCY IN FARM CAPITAL OUTLAYS AS PART OF INVESTMENT DEFICIENCY

Billions of 1963 Dollars

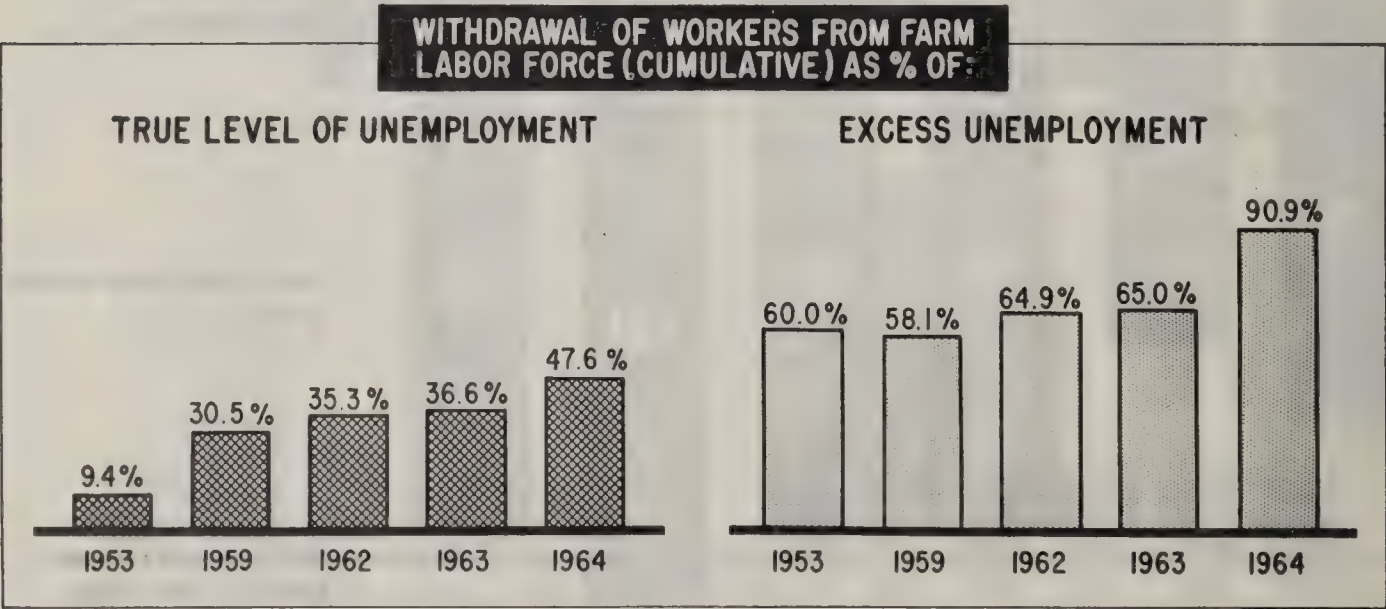
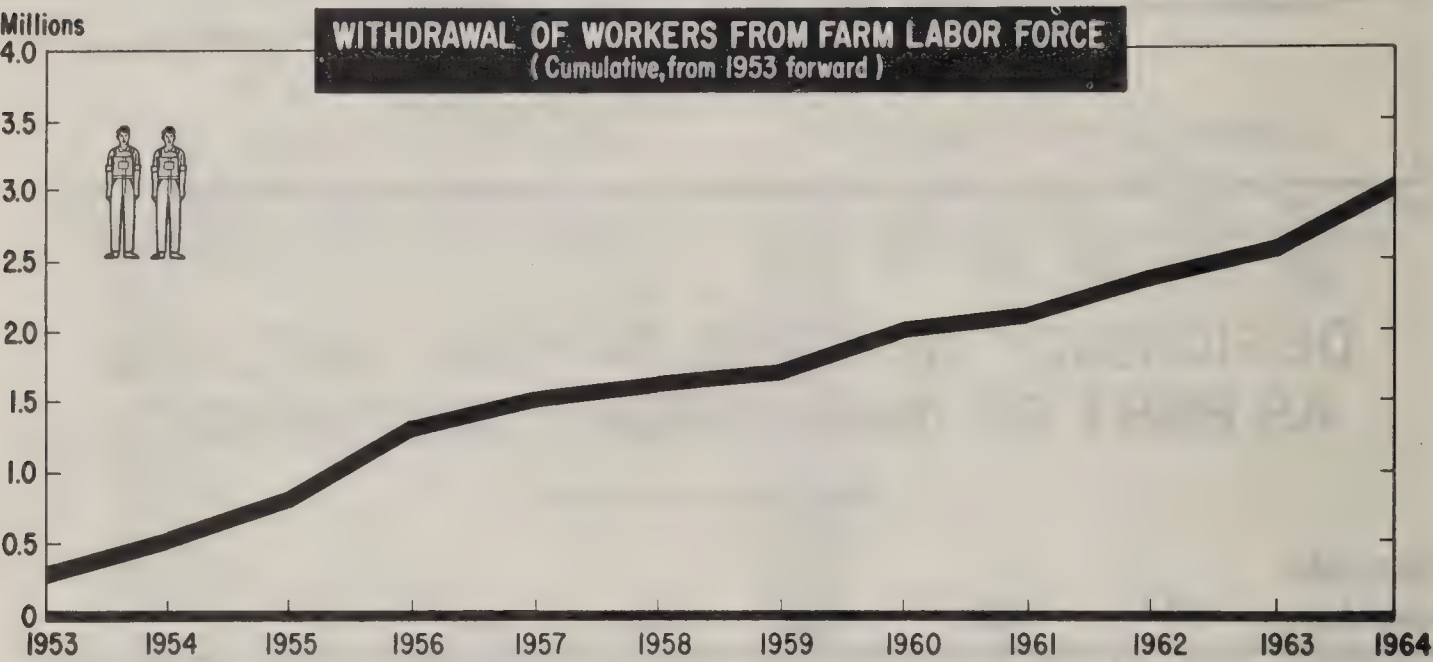
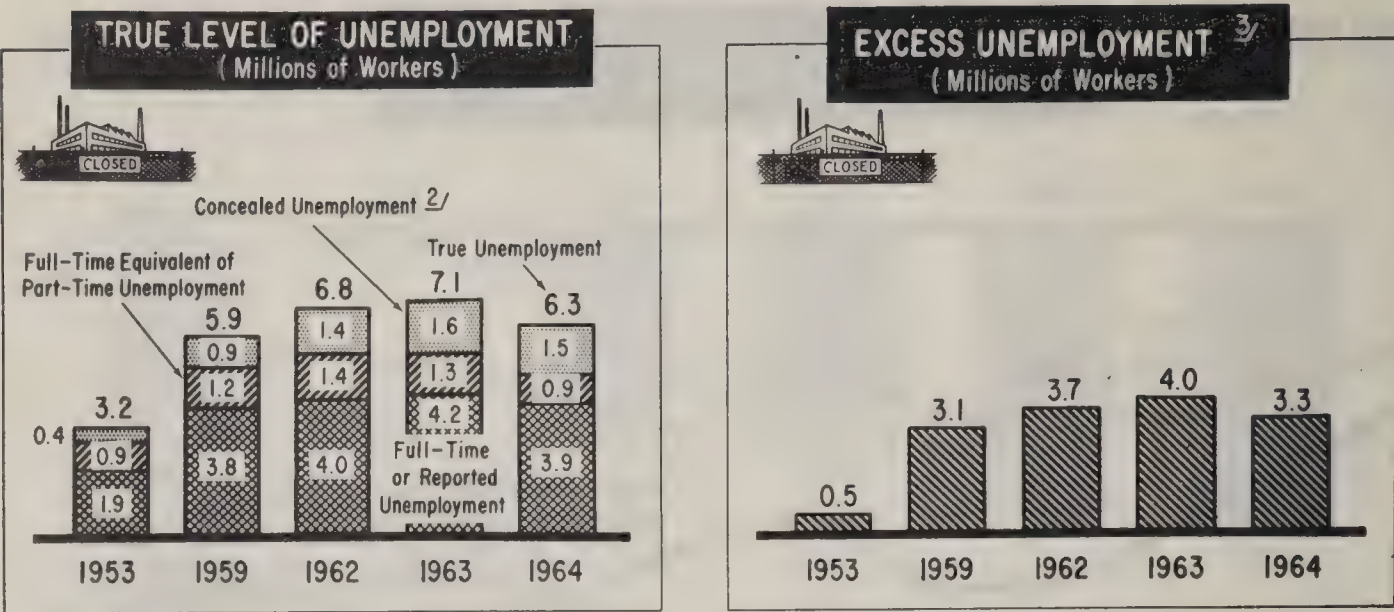


⌋ 1964 estimated by CEP on basis of first three quarters.

Data: Actual income and expenditures data, Depts. of Agriculture and Commerce; deficiencies estimated by CEP.

CHART NO. 9

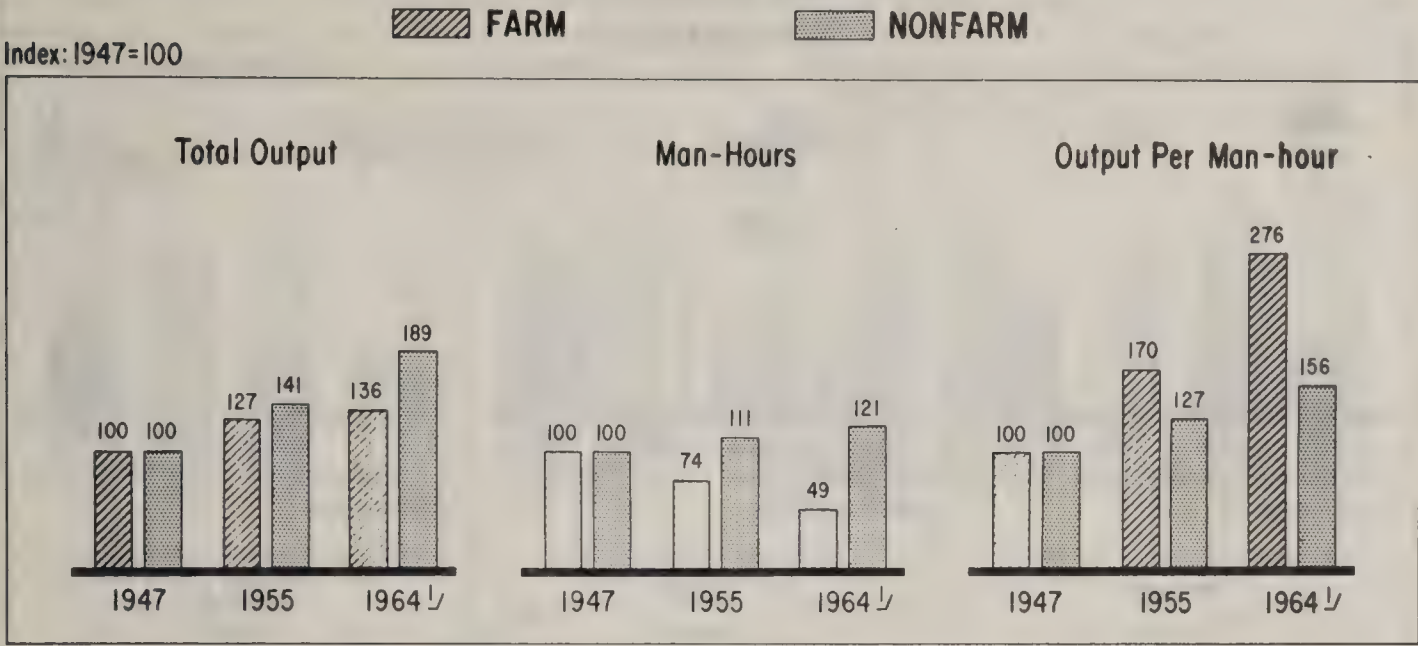
IMPACT OF FARM WORKER DECLINE UPON TOTAL UNEMPLOYMENT IN U.S., 1953-1964^{1/}



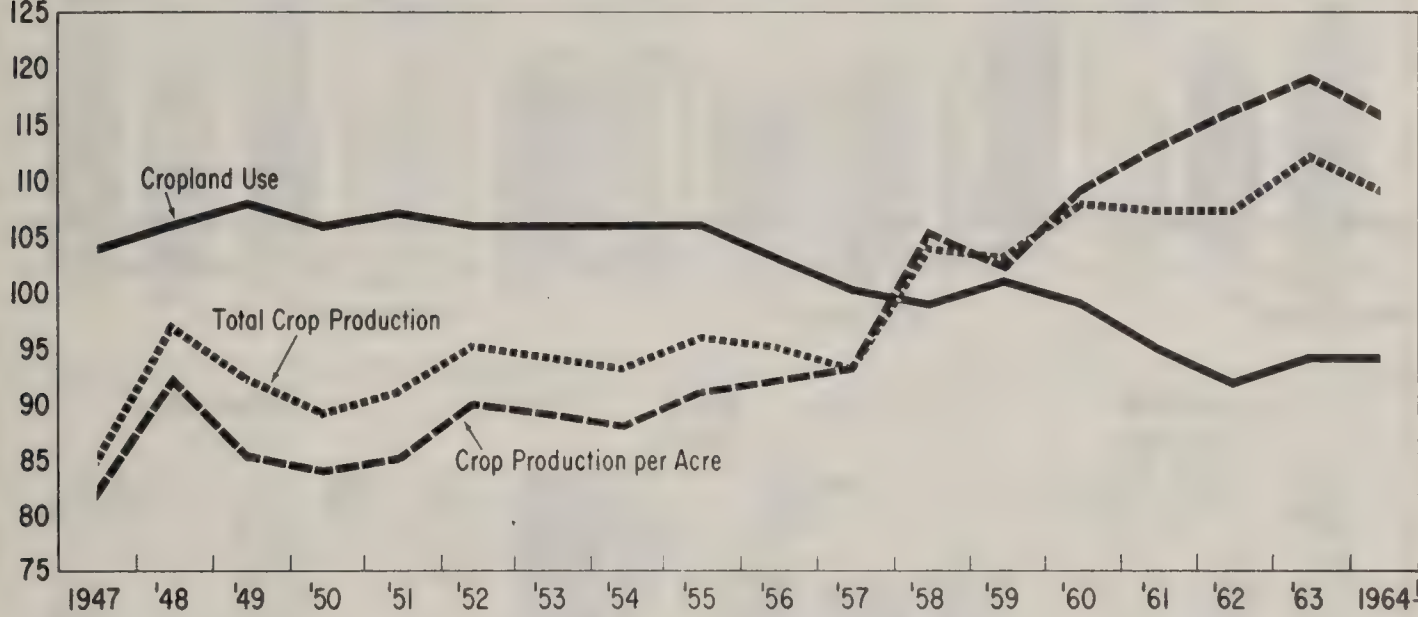
^{1/}1964 estimated on basis of first ten months.
^{2/}Estimated as the difference between the officially reported civilian labor force and its likely size under conditions of maximum employment.
^{3/}Unemployment in excess of levels consistent with maximum employment.

CHART No. 10

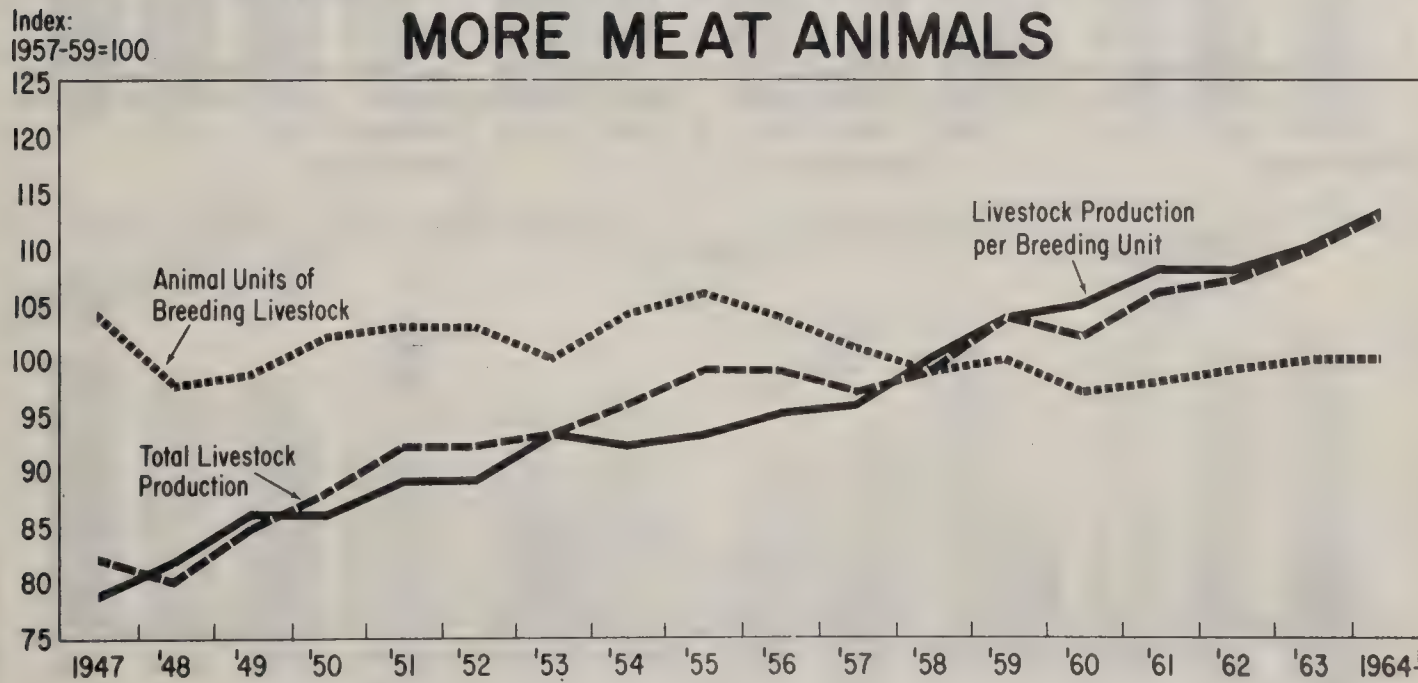
UNIQUE RECORD OF FARM PRODUCTIVITY



Index: 1957-59=100 LESS ACREAGE YIELDS MORE CROPS



FEWER BREEDING UNITS PRODUCE MORE MEAT ANIMALS



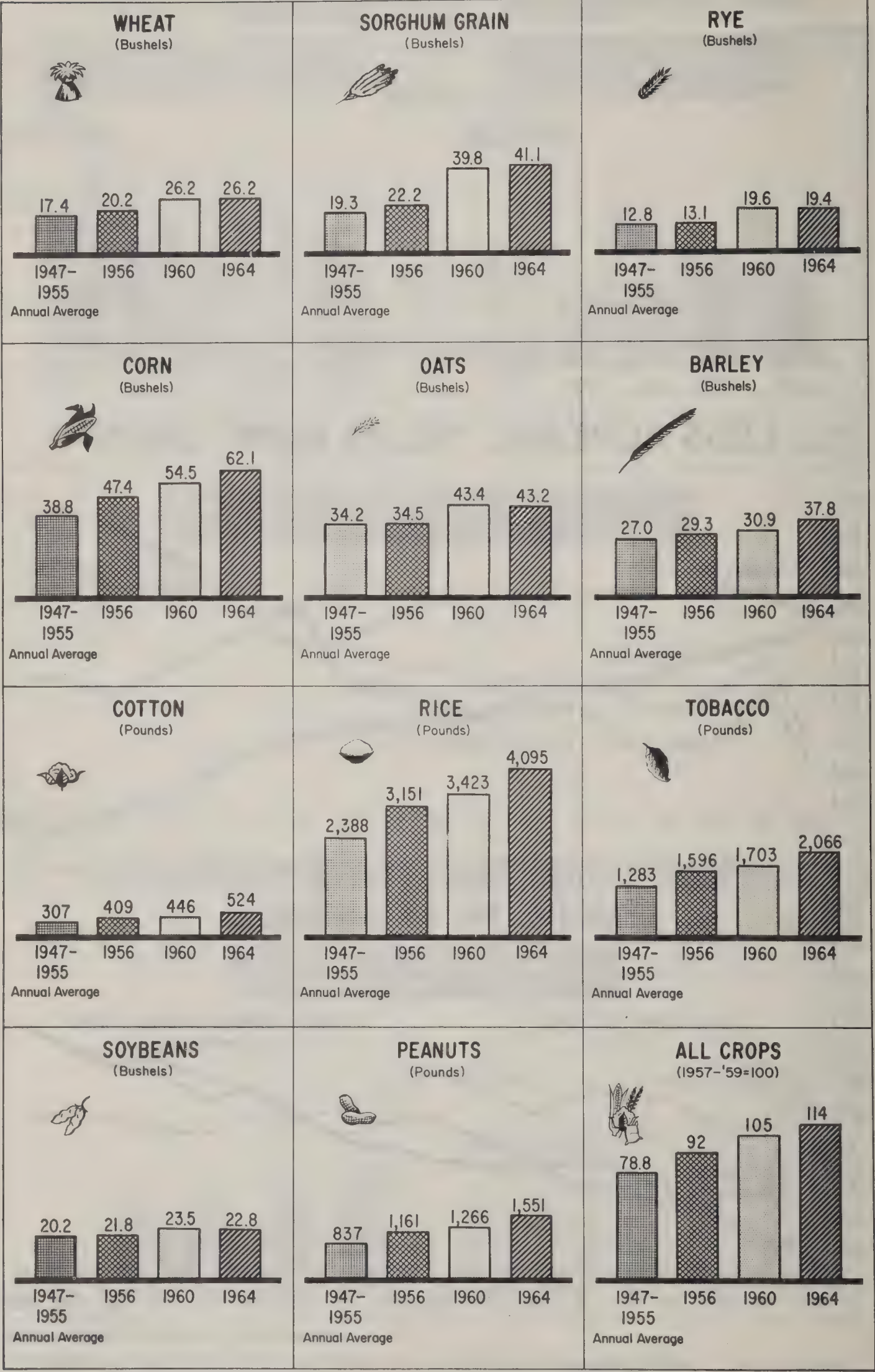
Estimated on basis of first ten months.

Data: Depts. of Agriculture and Commerce

CHART No. 11

RISING YIELDS PER ACRE, 1947-1964

(Note Different Scales)

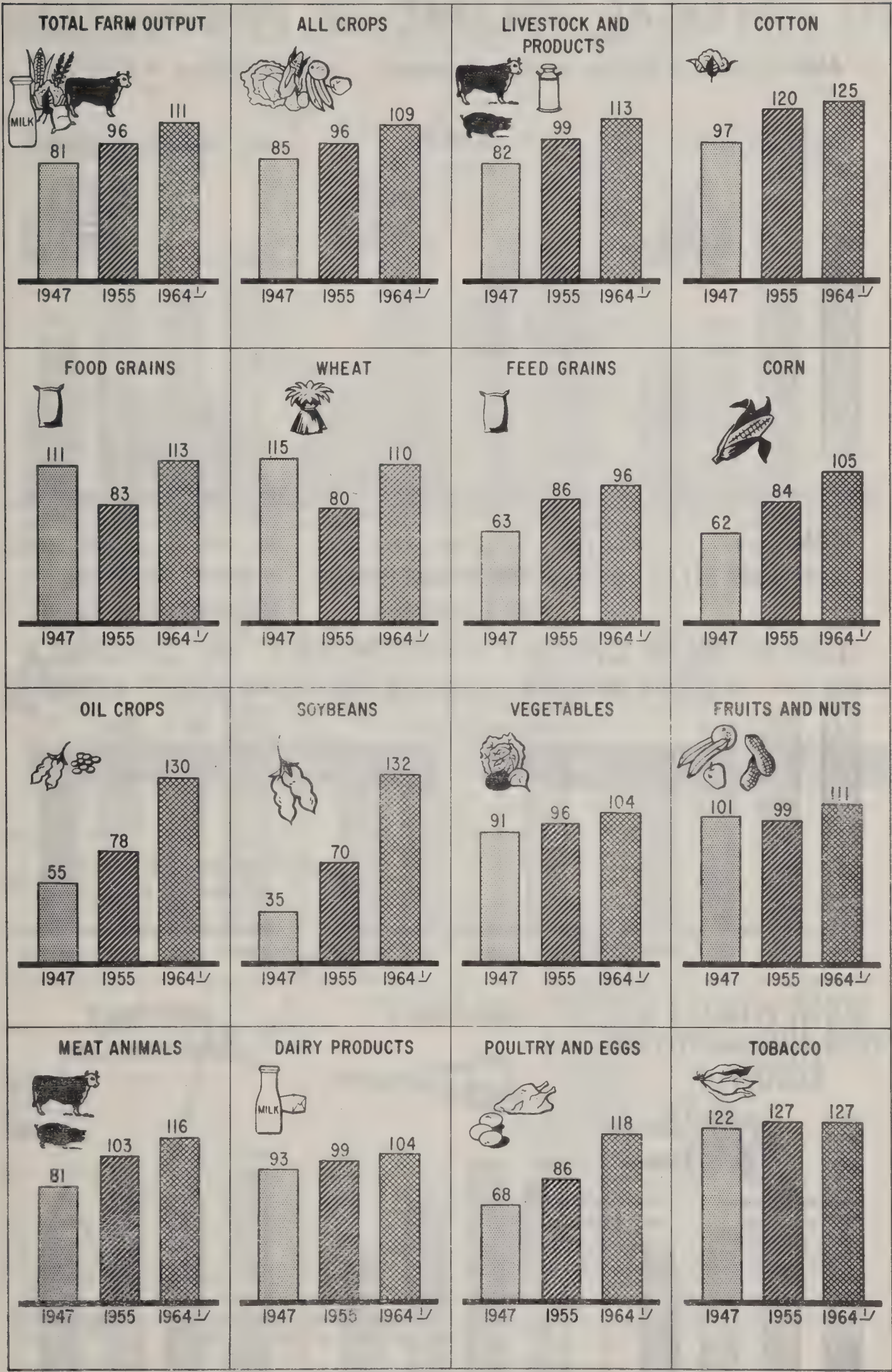


Data: Dept. of Agriculture

CHART No. 12

RISING FARM OUTPUT, 1947-1964

(Index Numbers, 1957-'59=100)



Preliminary estimates

Data: Dept. of Agriculture

CHART No. 13

RATIO OF VOLUME OF EMPLOYMENT TO PHYSICAL VOLUME OF PRODUCTION

(1947-1949 Ratio of Employment to Production = 100)

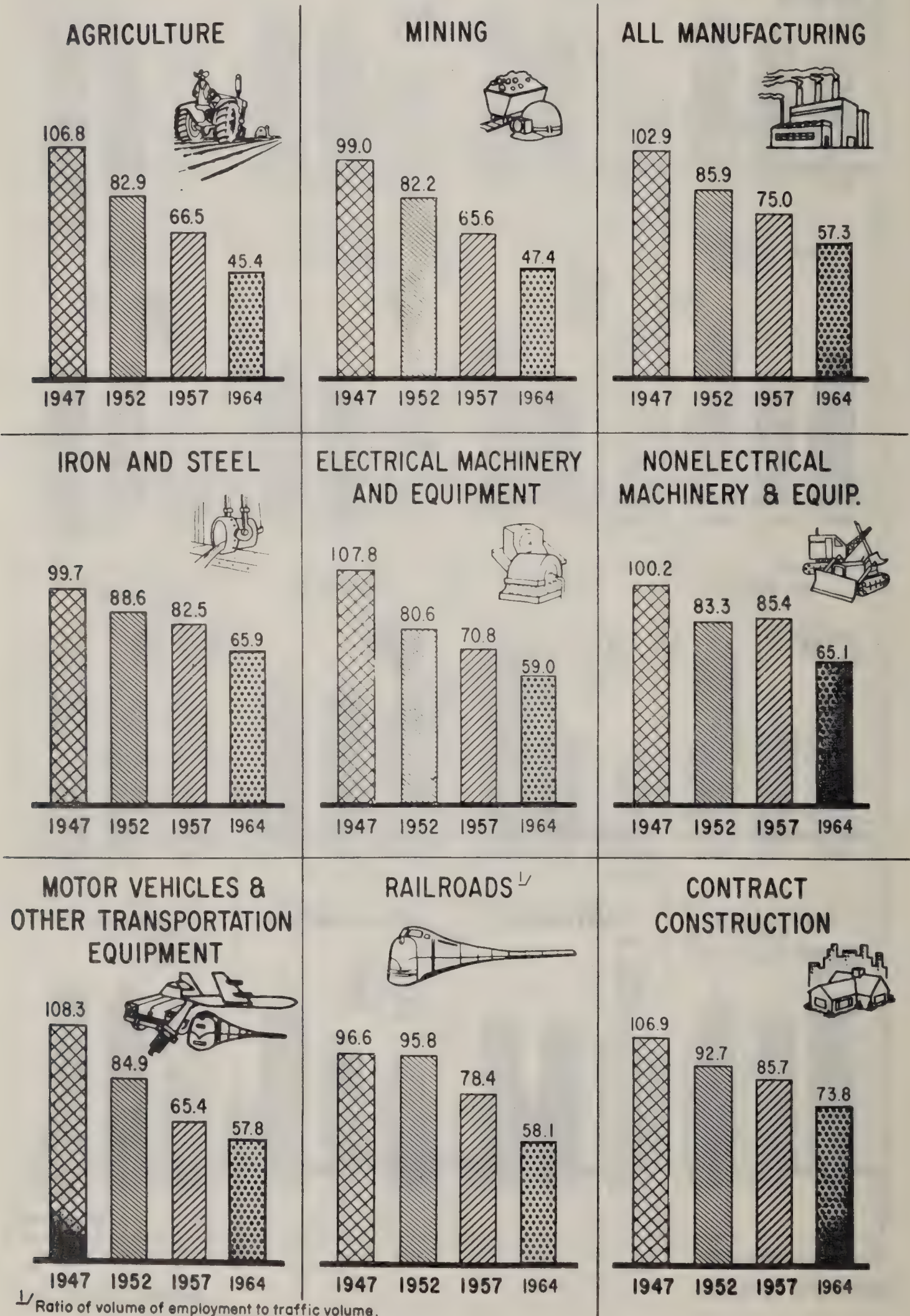
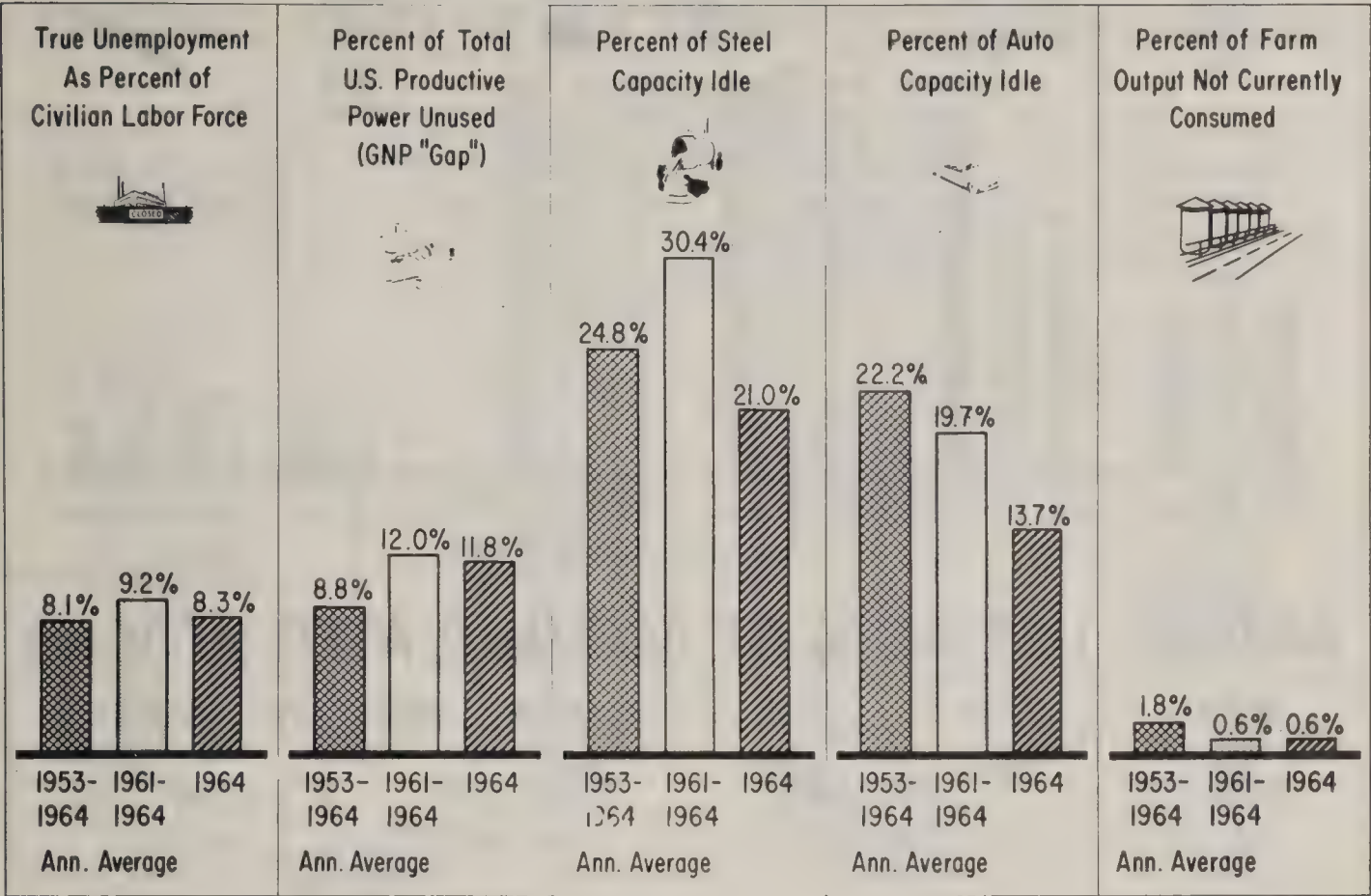


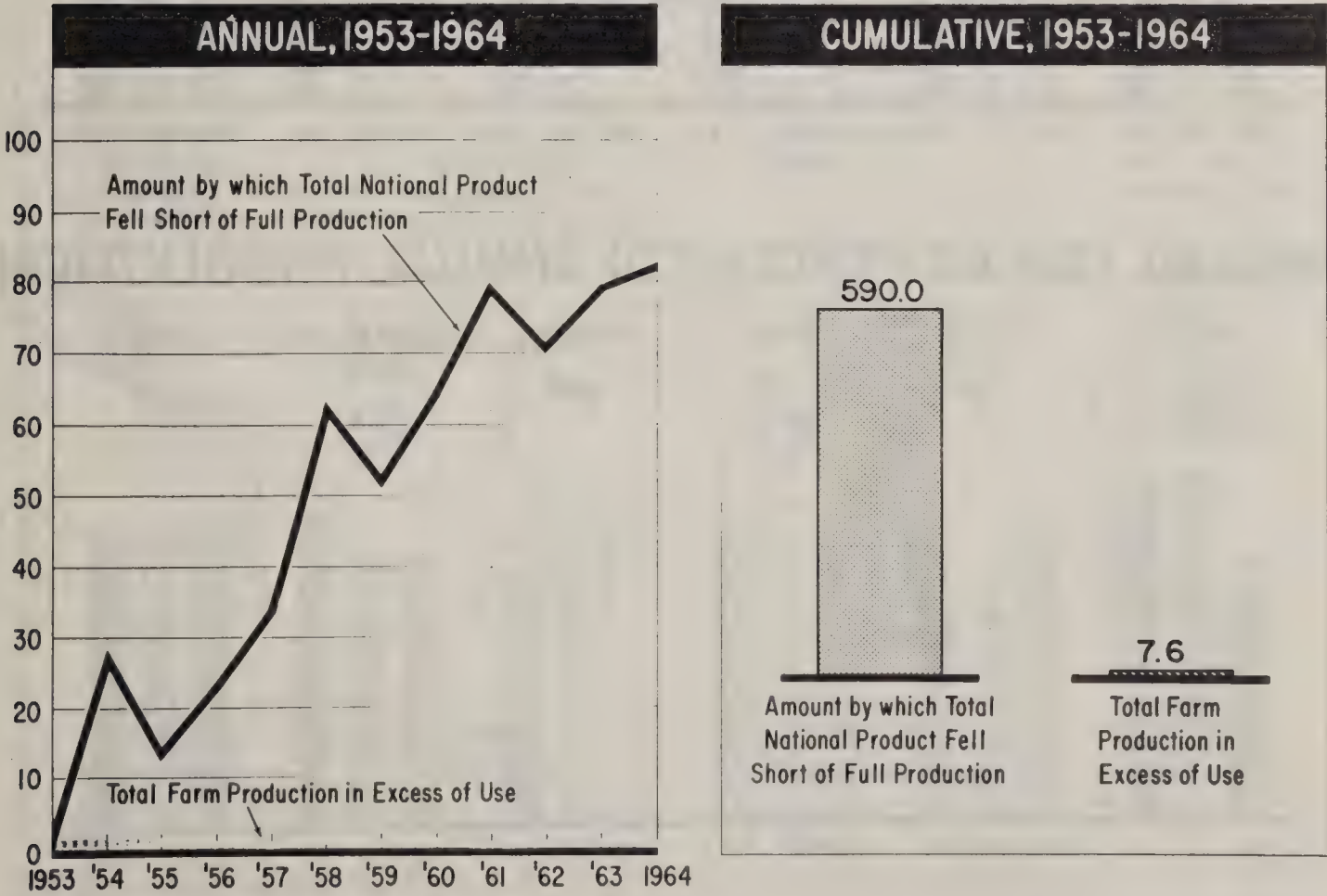
CHART No. 14

FARM SURPLUSES ARE TINY FRACTION OF OTHER SURPLUSES IN U.S. ECONOMY



VALUE OF FARM SURPLUSES COMPARED WITH TOTAL IDLE RESOURCES (GNP "GAP")

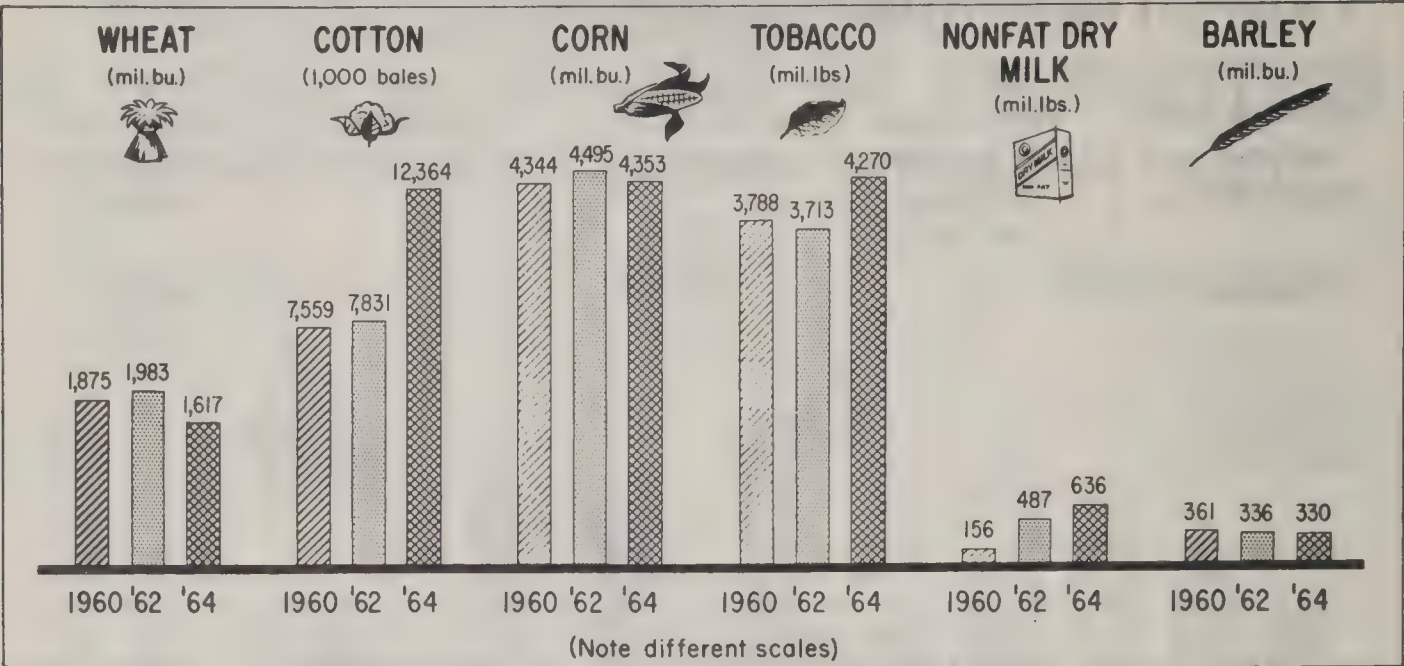
In Billions of 1963 Dollars



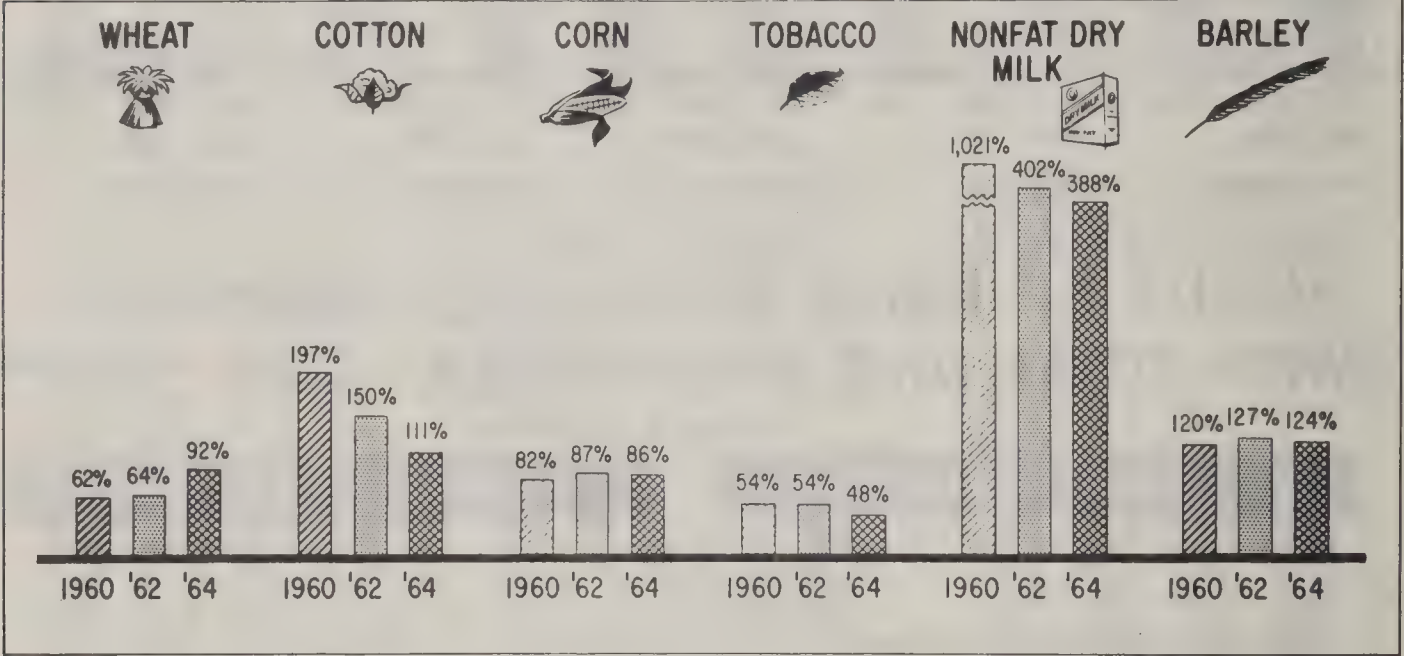
Note: 1964 estimated by CEP on basis of first 11 months.
Data: Depts. of Agriculture, Commerce, and Labor

CHART No. 15

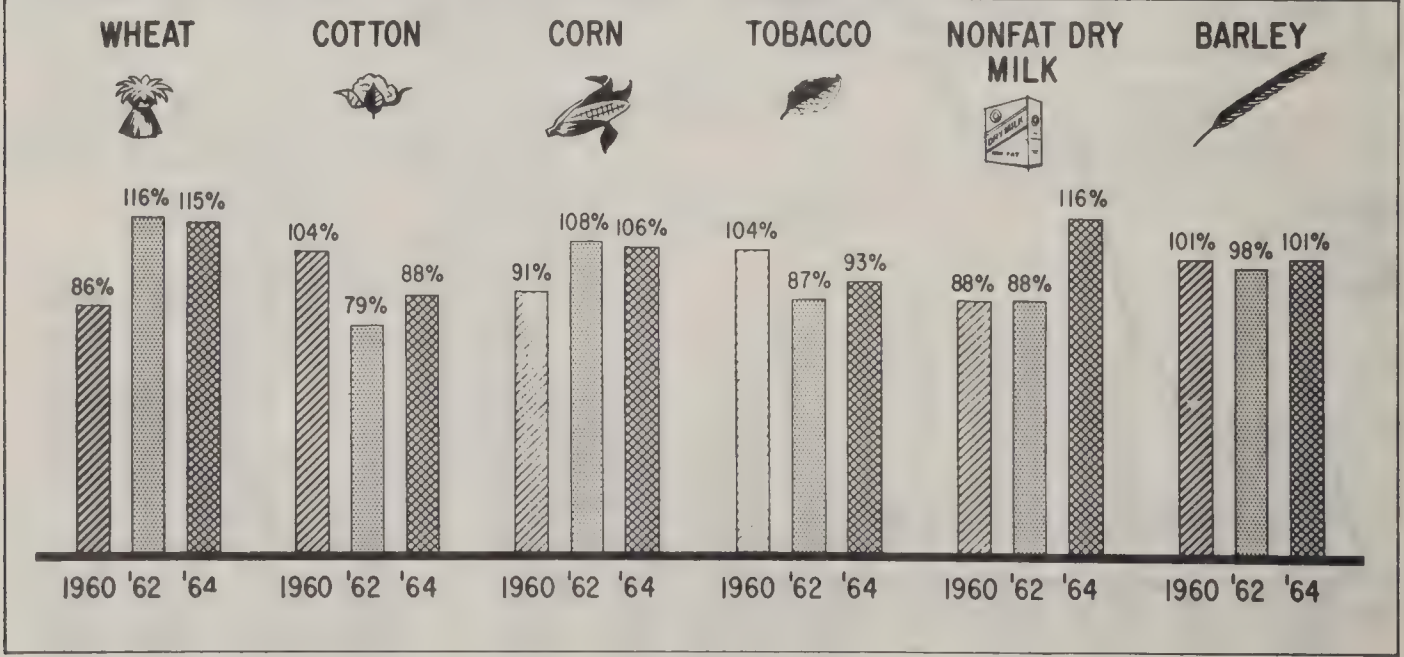
ACCUMULATED STOCKS,^{1/} KEY FARM PRODUCTS



ANNUAL USE AS % OF ACCUMULATED STOCKS



ANNUAL USE AS PERCENT OF ANNUAL PRODUCTION



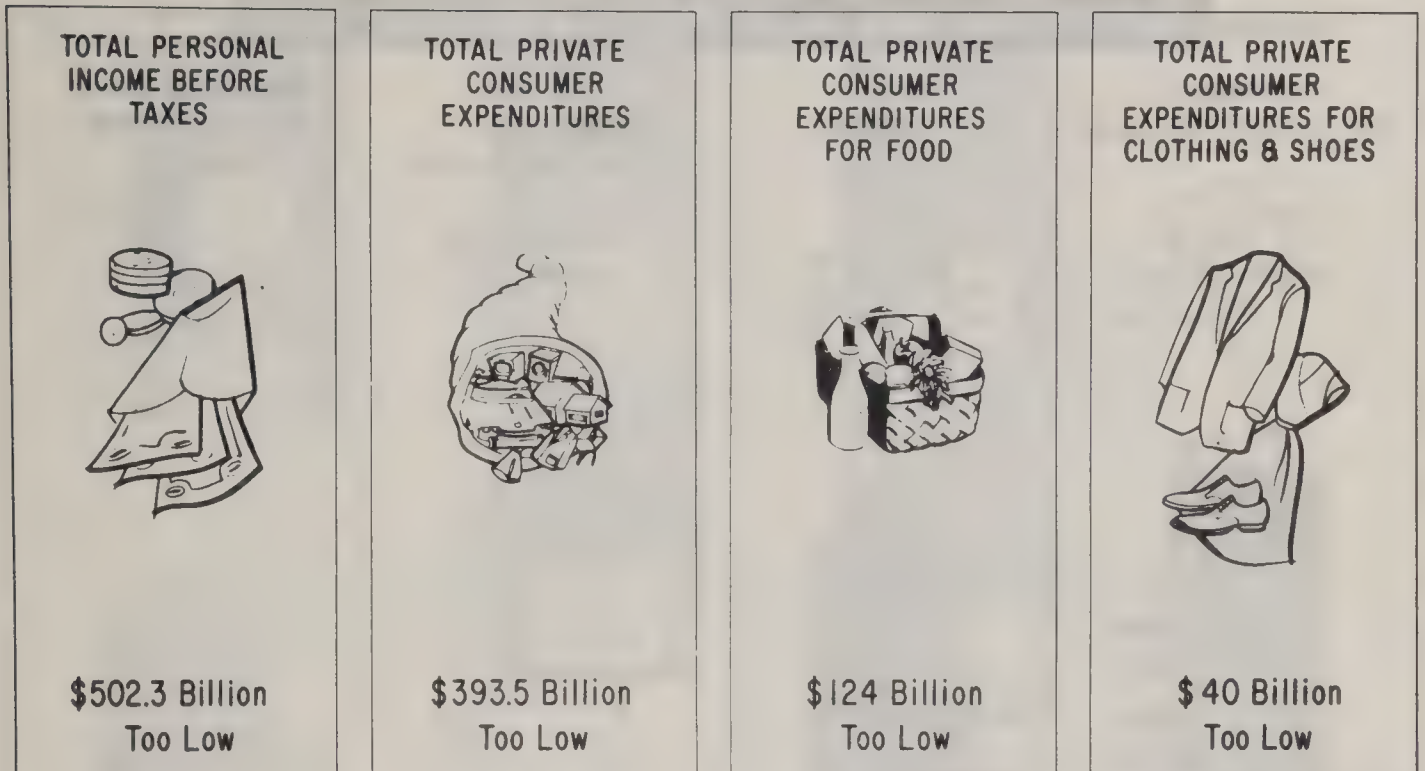
^{1/} January 1 stocks, except for cotton, which are as of August 1

Data: Dept. of Agriculture

CHART No. 16

DEFICITS IN TOTAL PERSONAL INCOME AND IN TOTAL PRIVATE CONSUMPTION DURING TWELVE-YEAR PERIOD, 1953-1964^{1/}

In 1963 Dollars



DIRECT EFFECT OF THESE DEFICITS UPON FARM MARKETINGS AND INCOME DURING THE SAME TWELVE-YEAR PERIOD

In 1963 Dollars



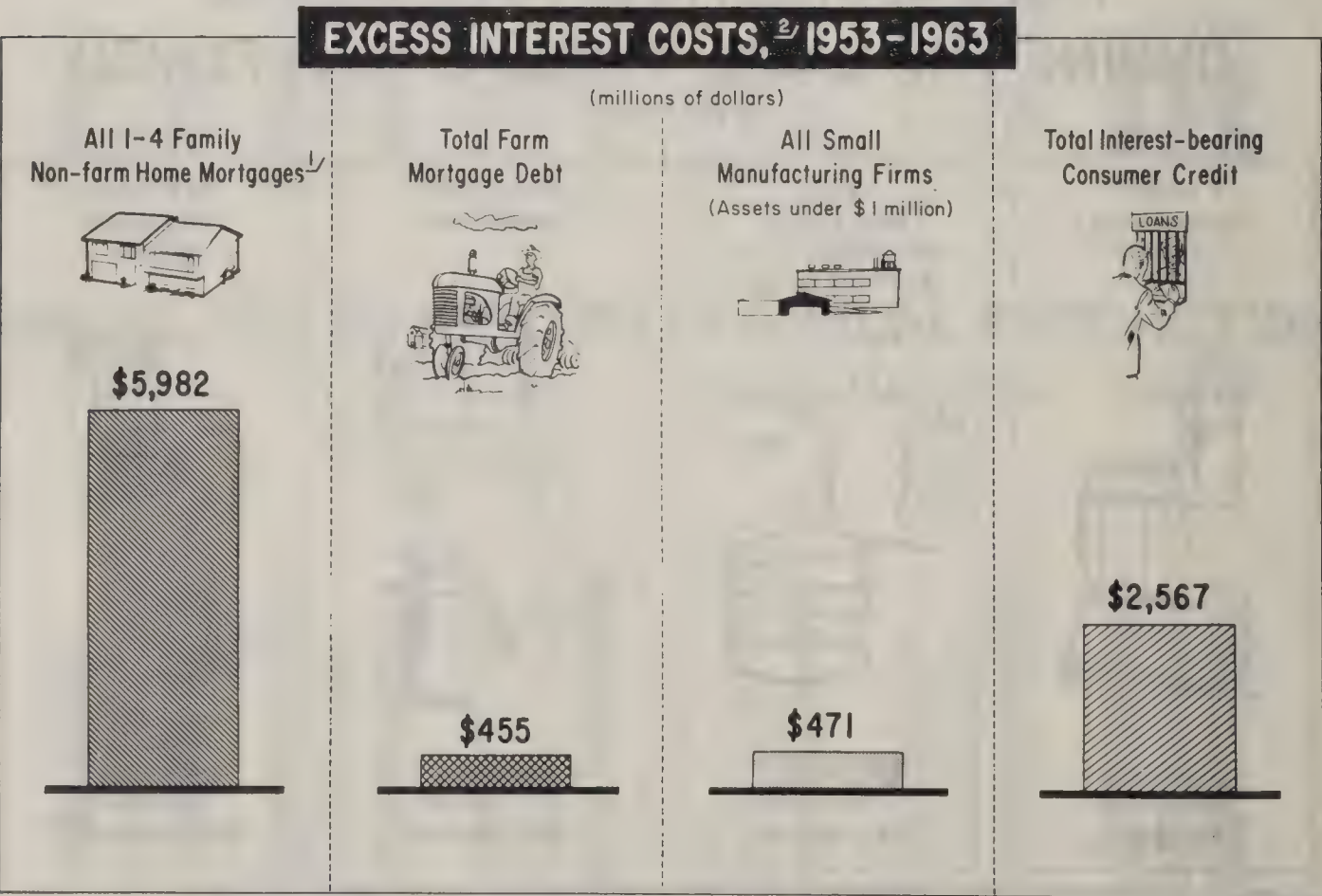
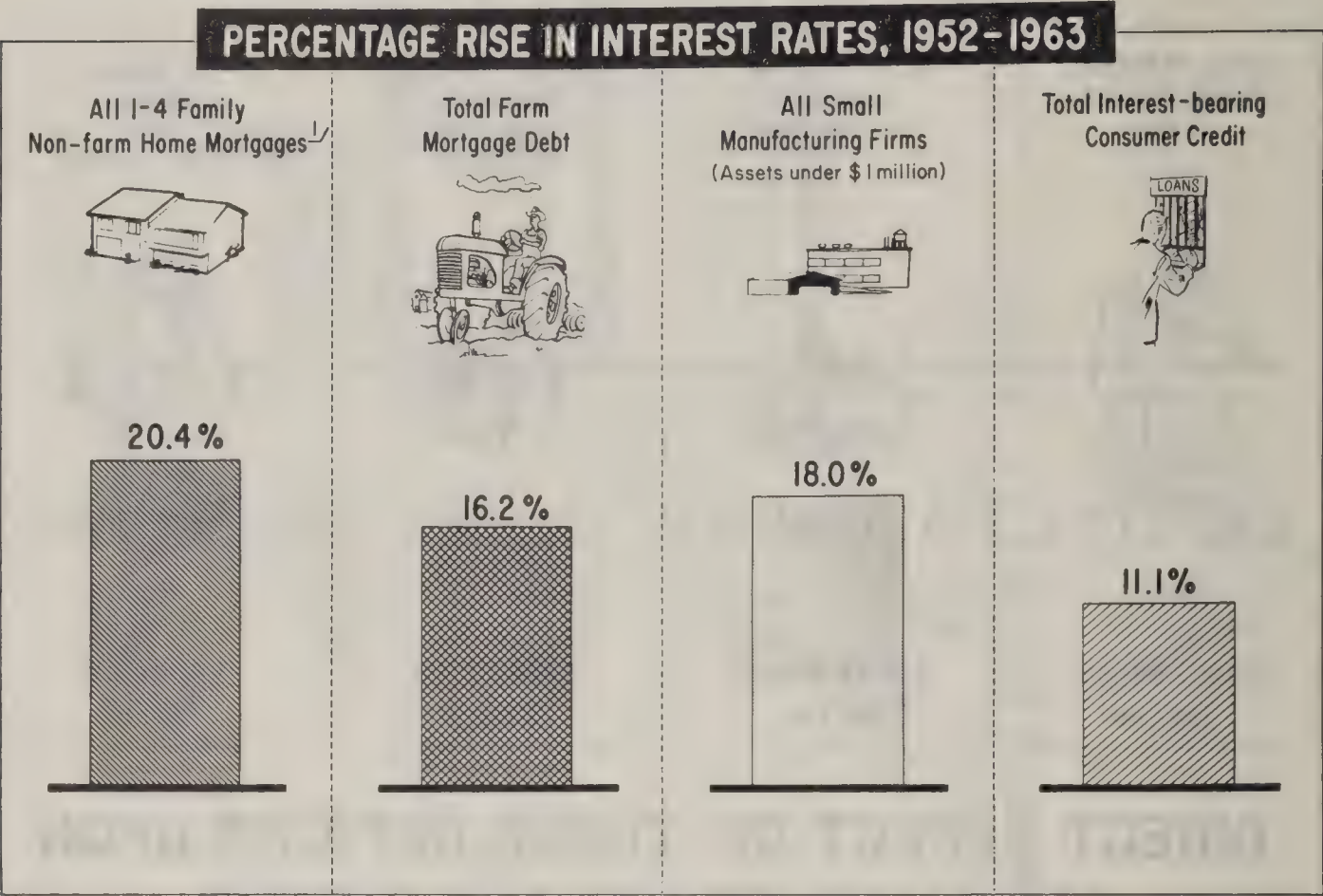
^{1/}1964 estimated by Conference on Economic Progress on basis of data for first three quarters.

^{2/}This deficit is only a fraction of the 85 billion dollar total net farm operator's income deficit, due to a variety of causes.

Data: Actual income and expenditures, Department of Commerce; actual farm marketings and net farm operators' income, Department of Agriculture; estimates of deficits, Conference on Economic Progress.

CHART No. 17

COST OF RISING INTEREST RATES TO HOME-OWNERS, FARMERS, SMALL BUSINESSES, AND USERS OF CONSUMER CREDIT, 1953-1963



^{1/} Based on a weighted average for interest rates of FHA, VA, and conventionally financed mortgages.

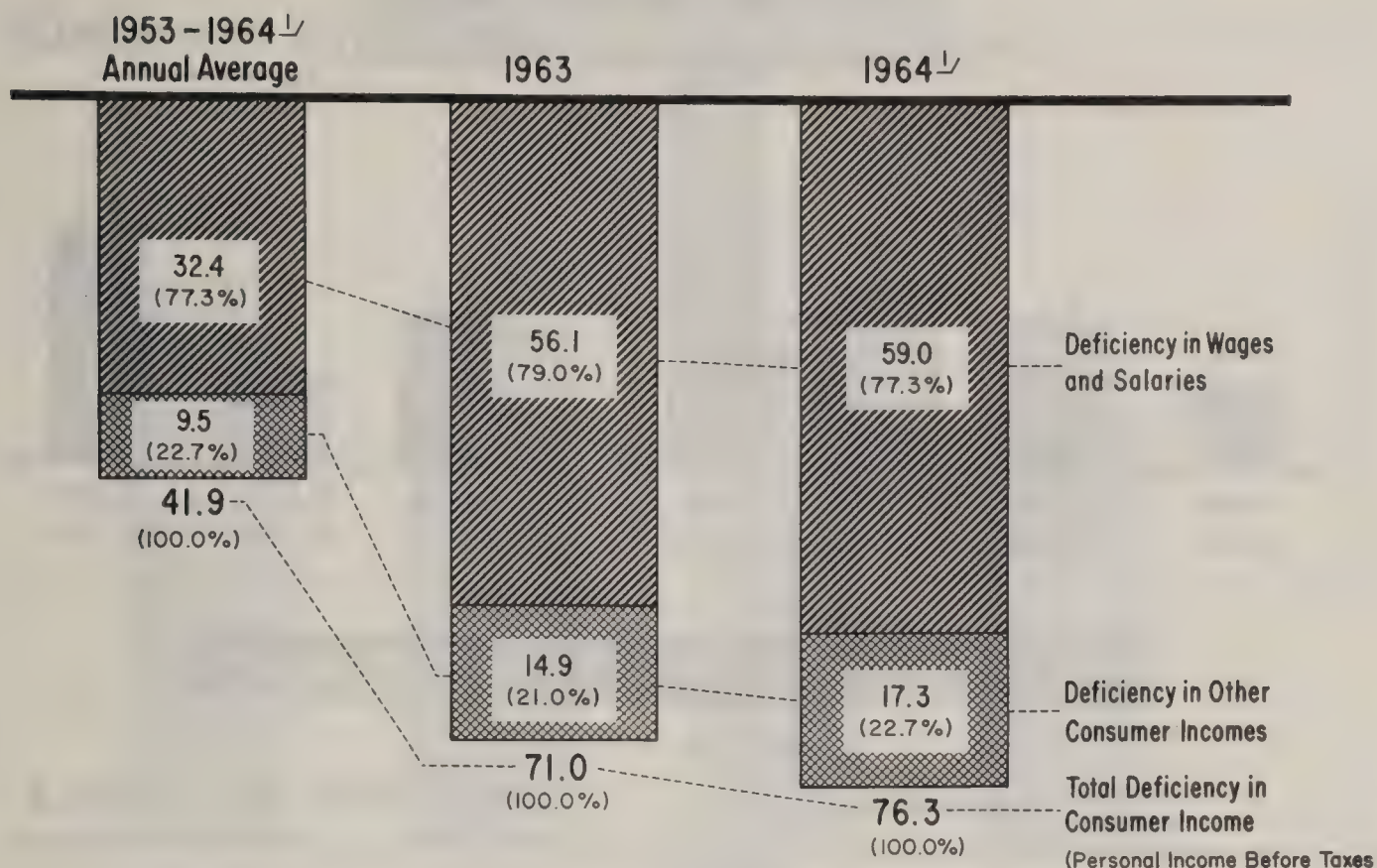
^{2/} Excess interest costs are based on actual interest rates compared with 1952 interest rates.

Note: Estimates by the Conference on Economic Progress based on data from the Housing and Home Finance Agency, the Veterans Administration, and the Federal Reserve.

CHART No. 18

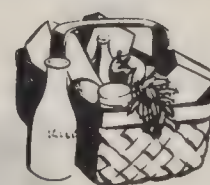
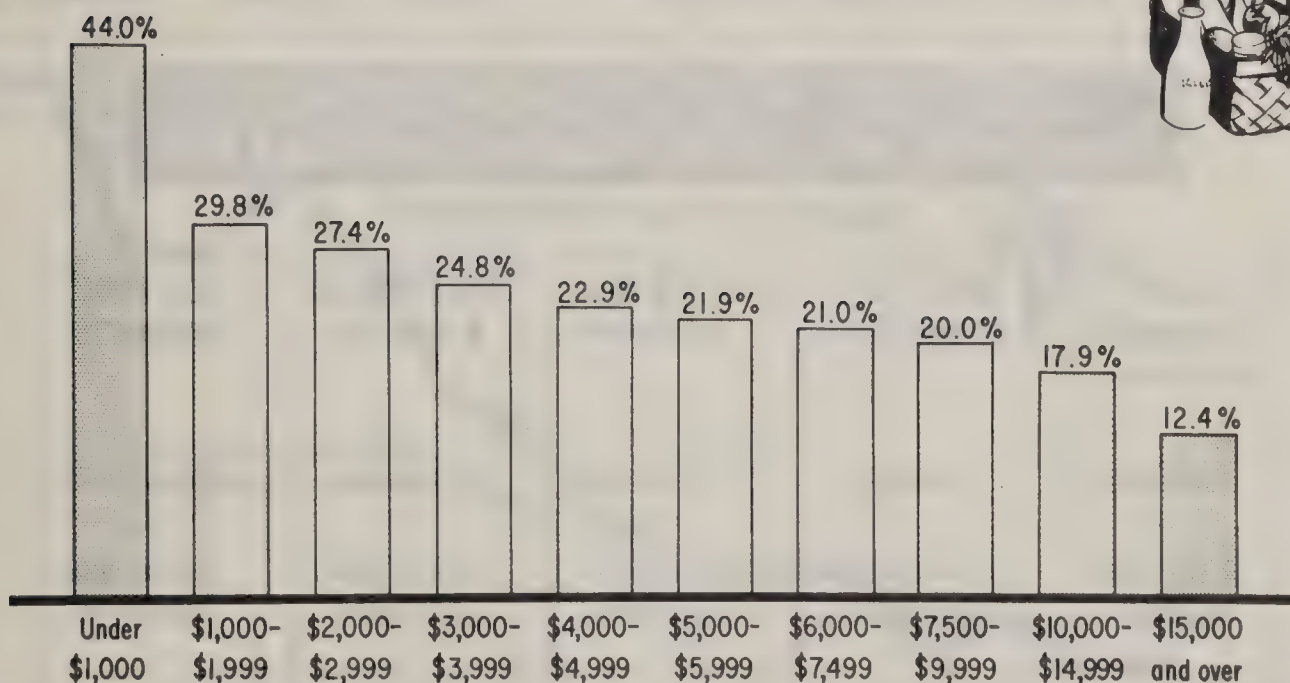
THE SHARE OF WAGE AND SALARY WORKERS IN TOTAL CONSUMER INCOME DEFICIENCY

Billions of 1963 Dollars



...AND WAGE EARNERS SPEND RELATIVELY MORE FOR FOOD THAN HIGHER INCOME FAMILIES

Percent of Disposable Income Spent on Food by Urban
Families and Single Consumers, 1960-'61^{2/}



^{1/}1964 estimated by CEP on basis of 1st three quarters.

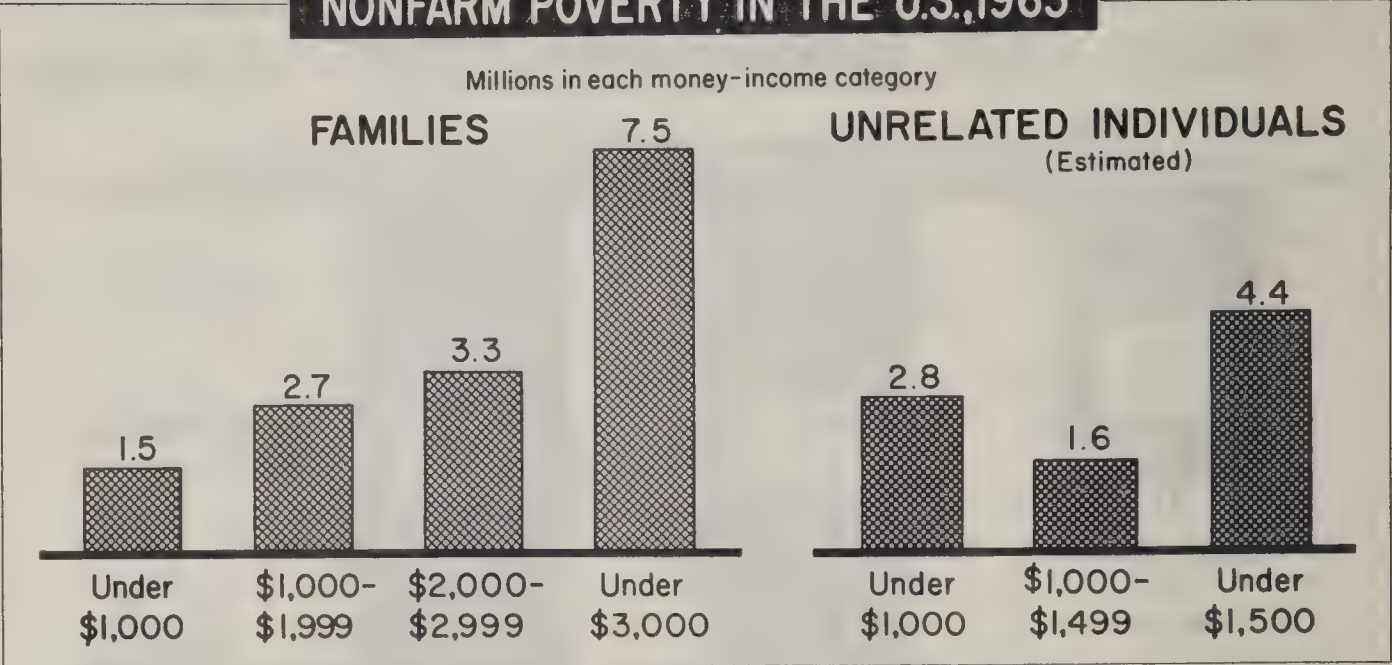
^{2/}From Consumer Expenditure Survey, 1960-'61 by the Bureau of Labor Statistics. Later data not available.

Data: Departments of Commerce and Labor

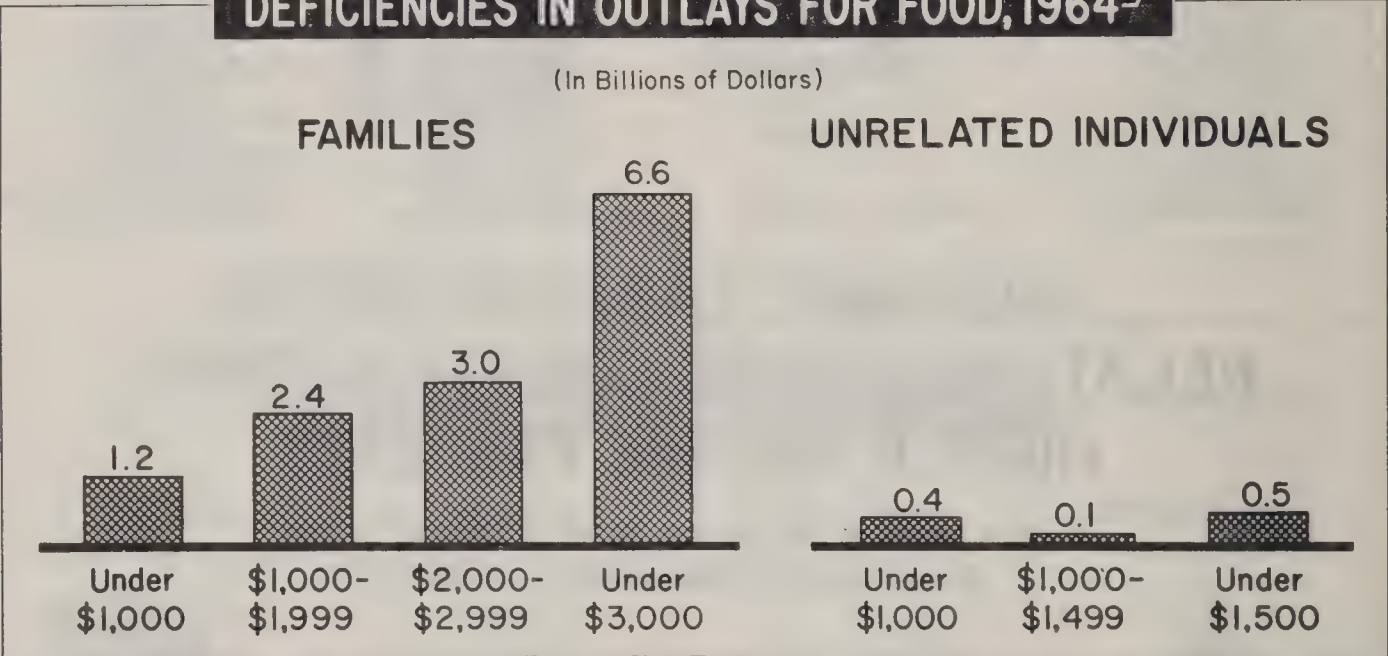
CHART No. 19

EFFECT OF POVERTY ON FOOD USE

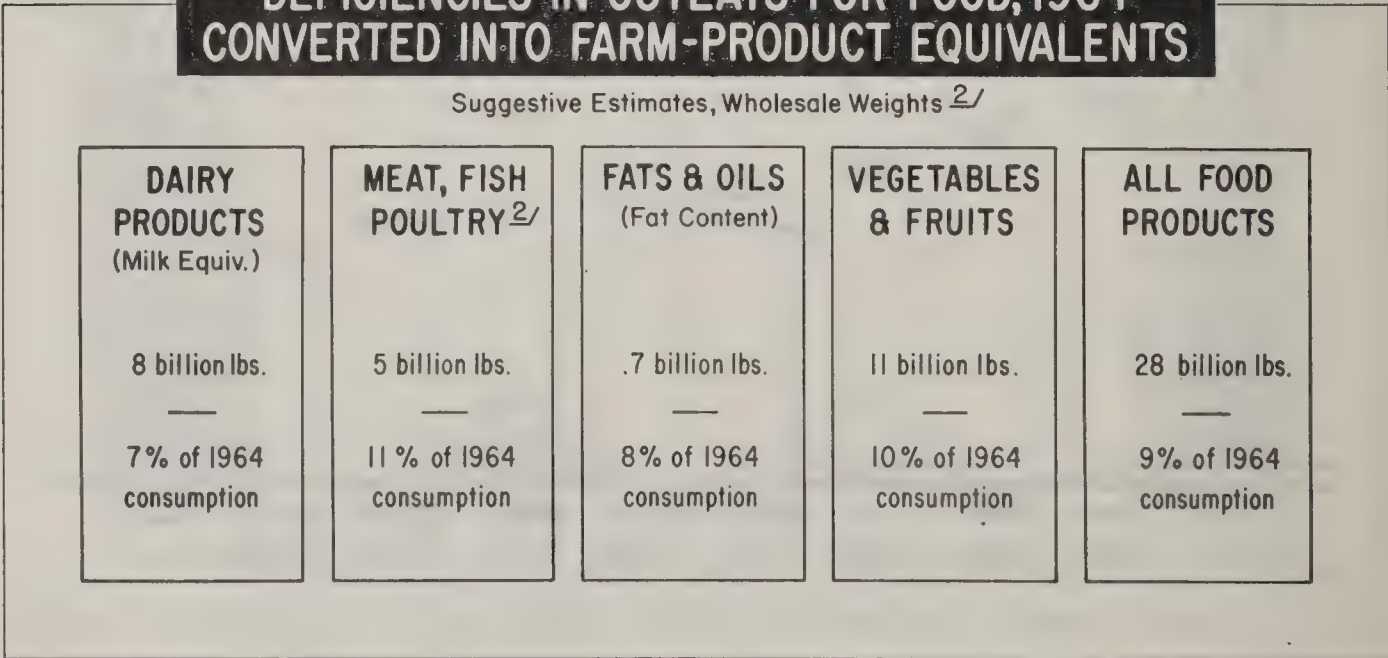
NONFARM POVERTY IN THE U.S., 1963



DEFICIENCIES IN OUTLAYS FOR FOOD, 1964^{1/}



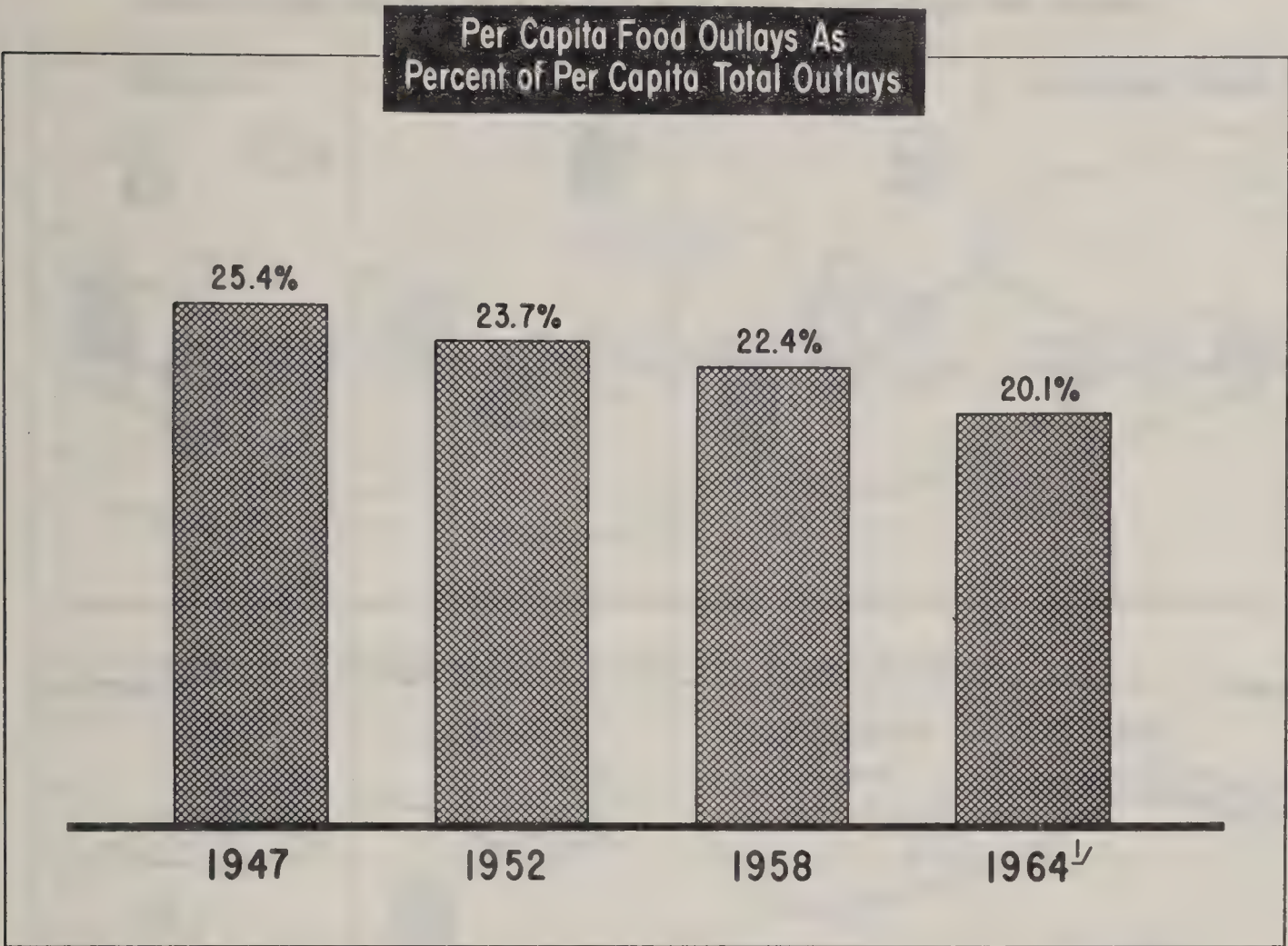
DEFICIENCIES IN OUTLAYS FOR FOOD, 1964
CONVERTED INTO FARM-PRODUCT EQUIVALENTS



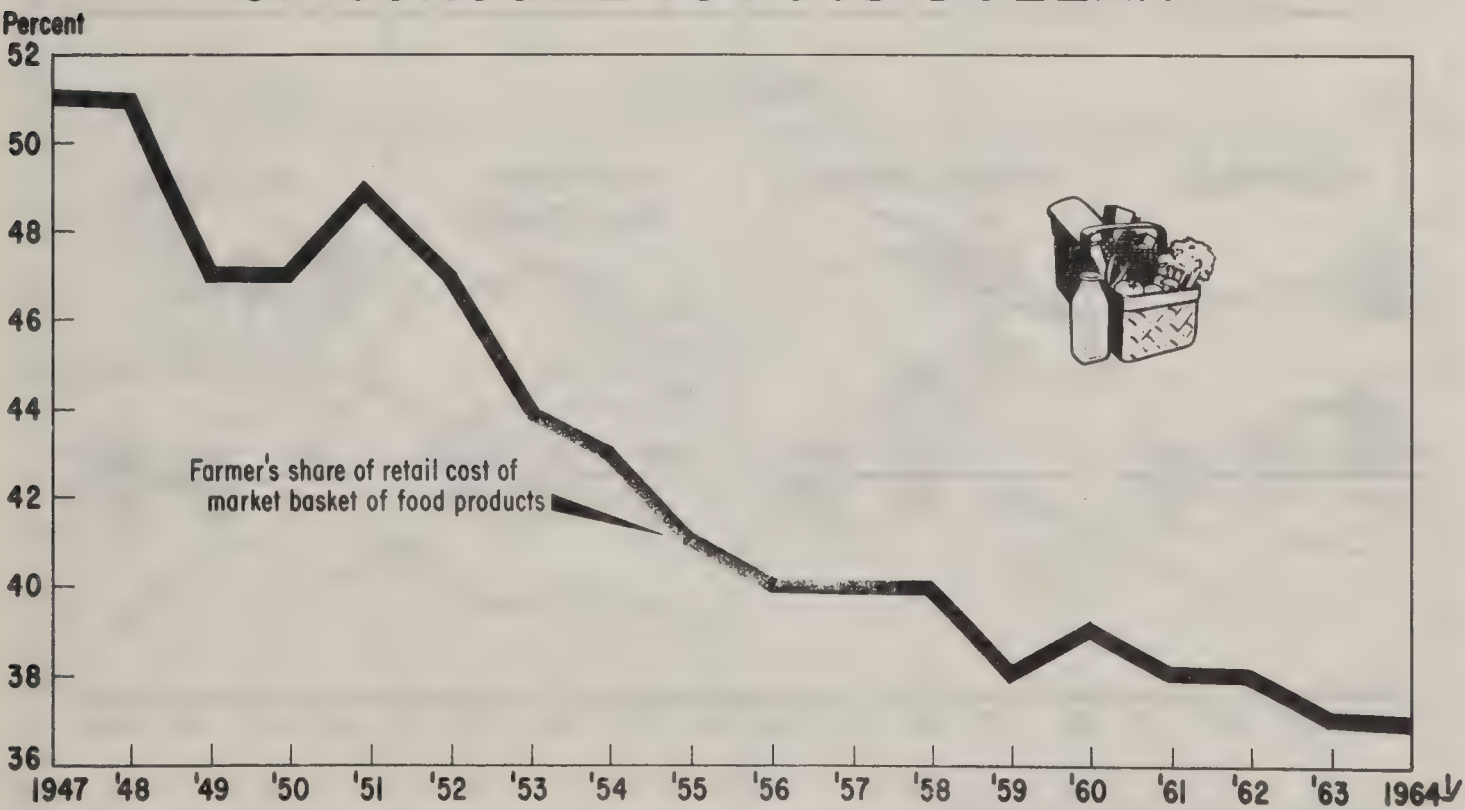
^{1/}Based on Dept. of Agriculture Moderate Cost Plan.
^{2/}Meat stated in carcass weight, poultry in ready-to-cook weight.

CHART No. 20

CONSUMER SPENDING FOR FOOD HAS DECLINED
IN RATIO TO TOTAL CONSUMER SPENDING



FARM TO MARKET SPREAD HAS GROWN:
THE FARMER GETS A DECLINING SHARE
OF CONSUMER'S FOOD DOLLAR

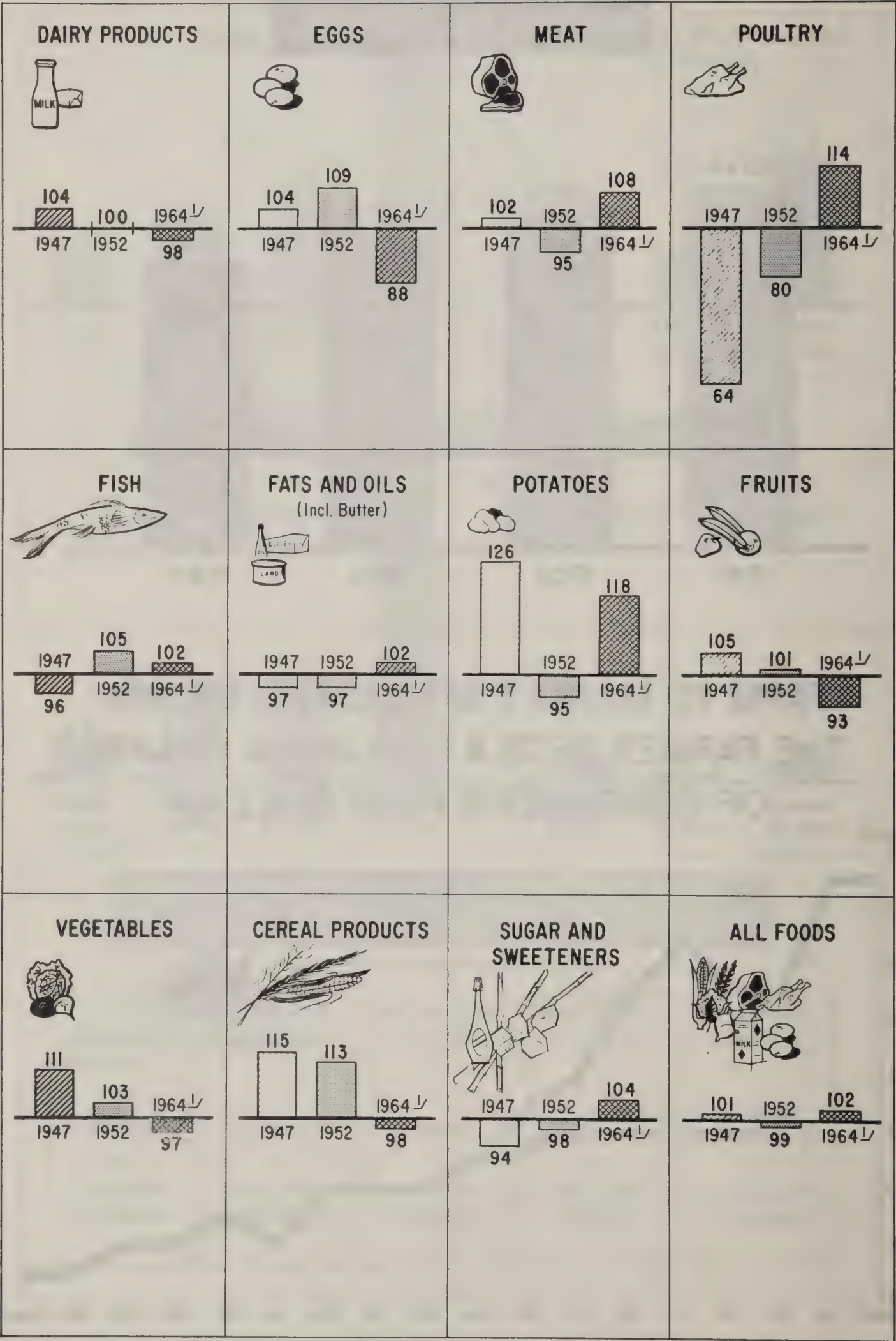


^{1/} Estimated on basis of first three quarters
Data: Dept. of Agriculture and Commerce.

CHART No. 21

PATTERNS OF FOOD CONSUMPTION CHANGE
WITH CHANGING INCOMES AND TASTES

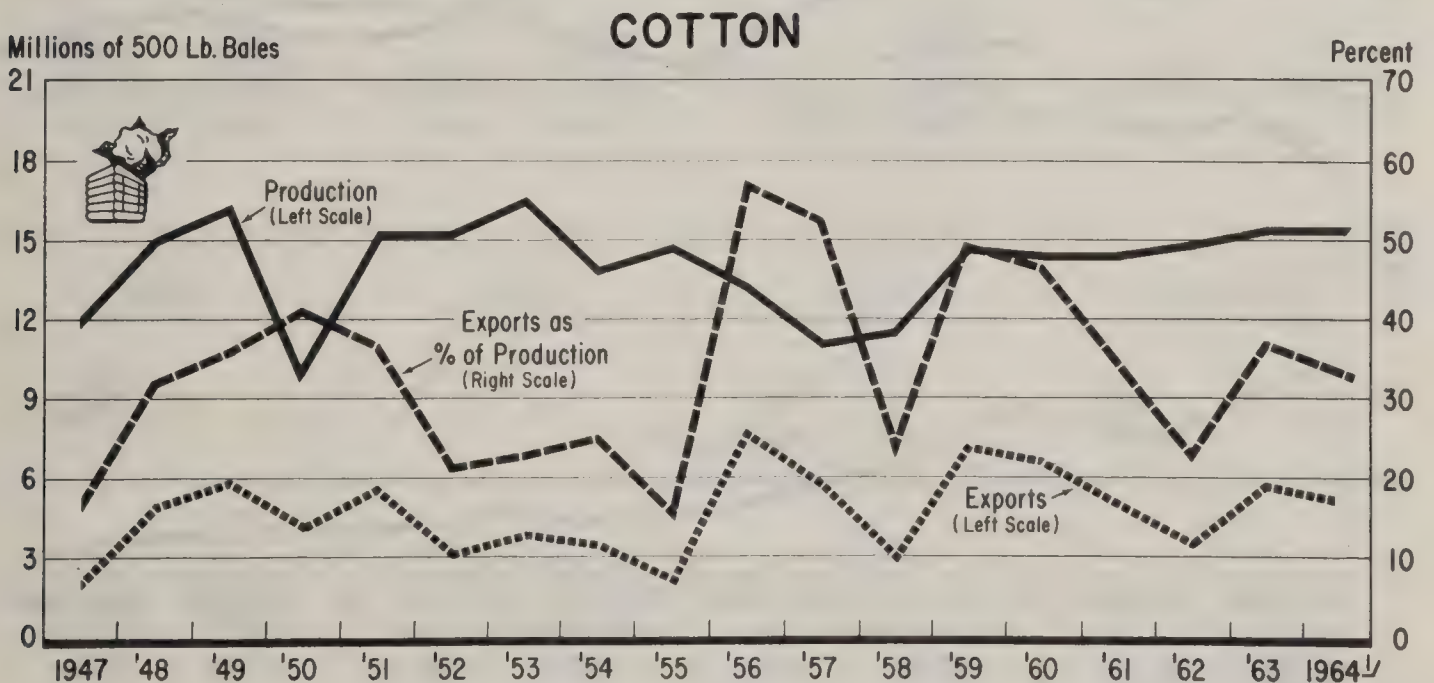
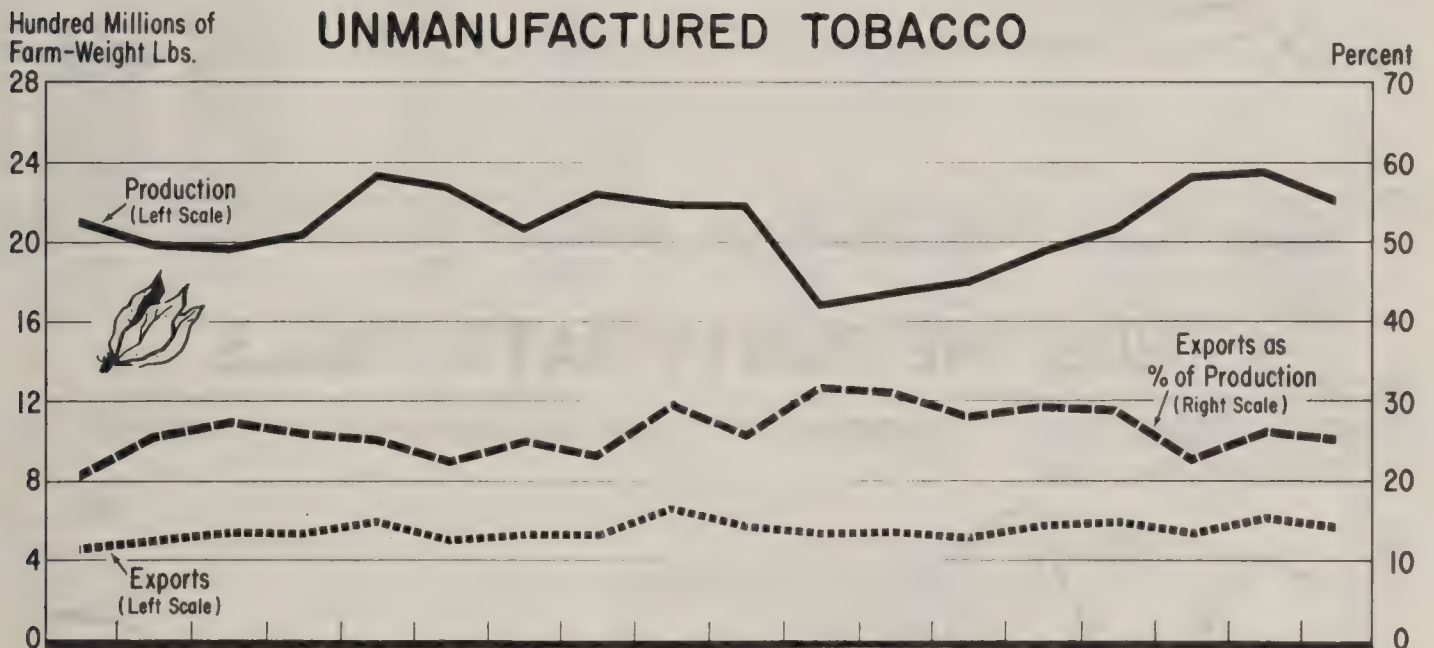
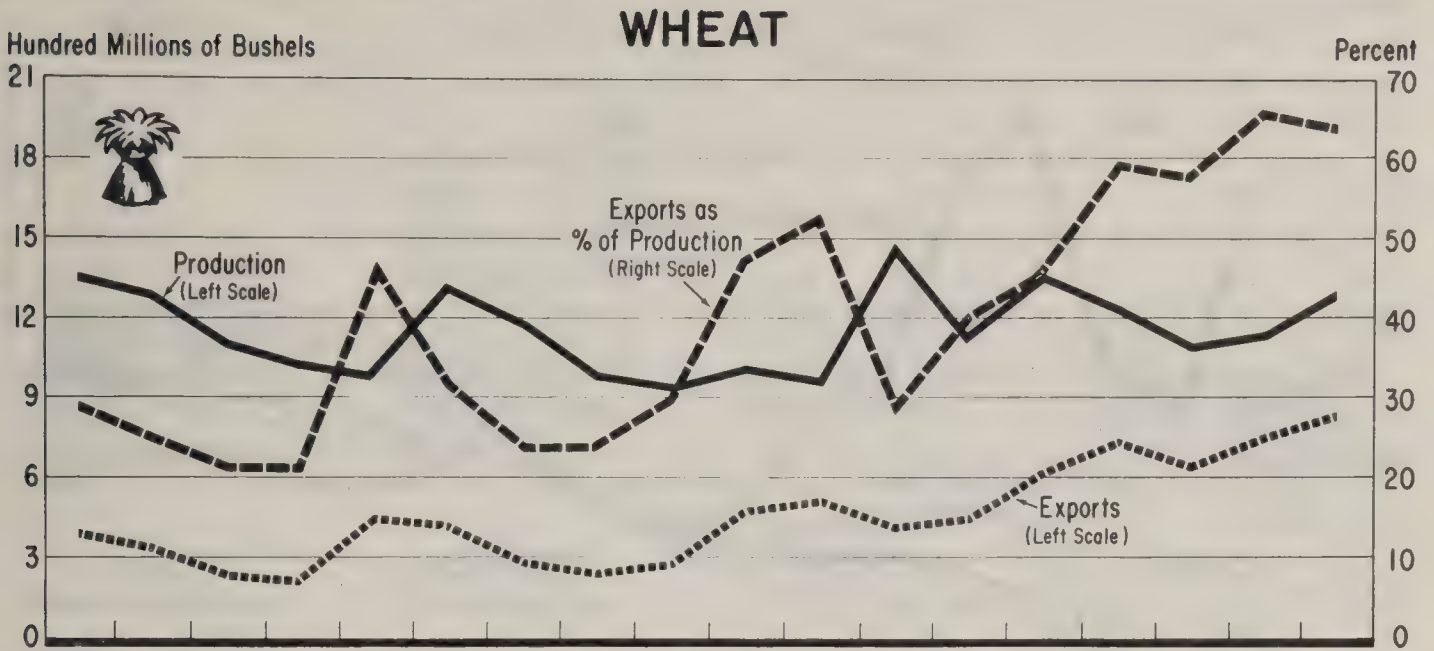
(Index of Per Capita Food Consumption (Price-weighted Basis), 1957-'59=100)



⌋ Preliminary estimates
Data: Dept. of Agriculture

CHART No. 22

INSTABILITY OF EXPORT MARKETS IS OF HIGH SIGNIFICANCE

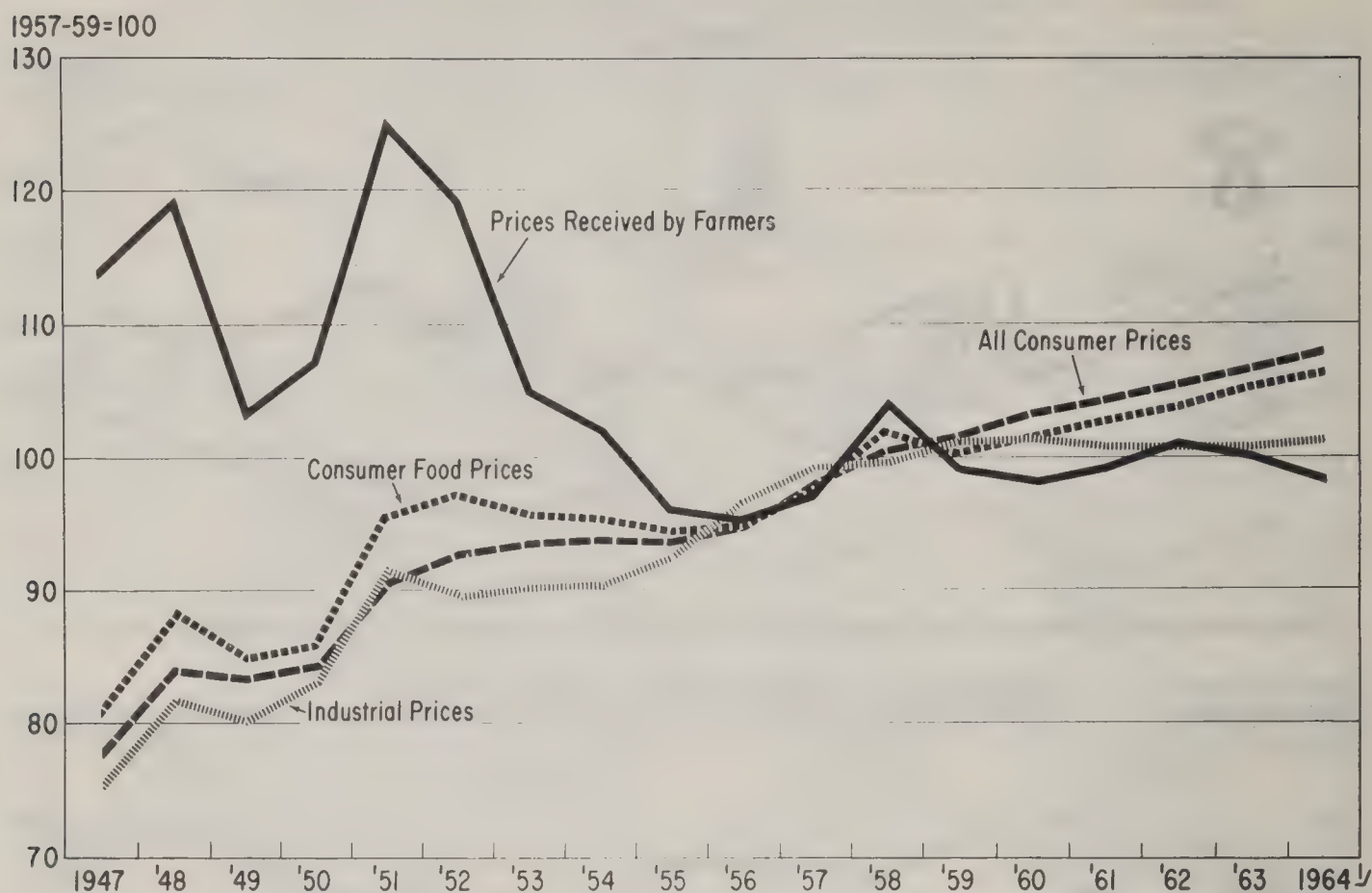


↙ Estimated on basis of indications as of December 1964.

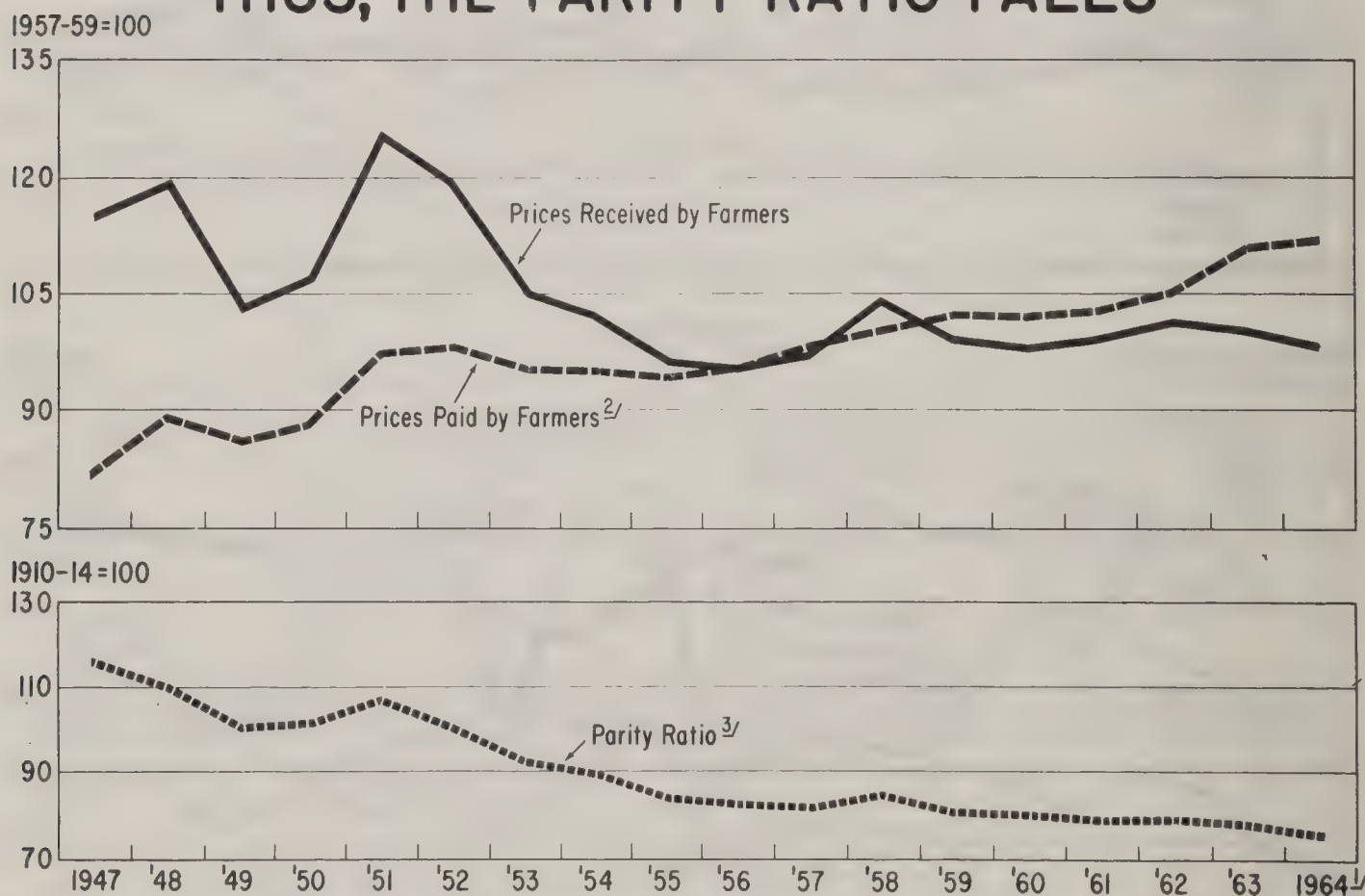
Data: Department of Agriculture.

CHART No. 23

FARM PRICES FALL IN "FREE MARKET" WHILE "ADMINISTERED" PRICES MOVE UP



THUS, THE PARITY RATIO FALLS



^{1/} Estimated by Conference on Economic Progress on basis of data for first three quarters.

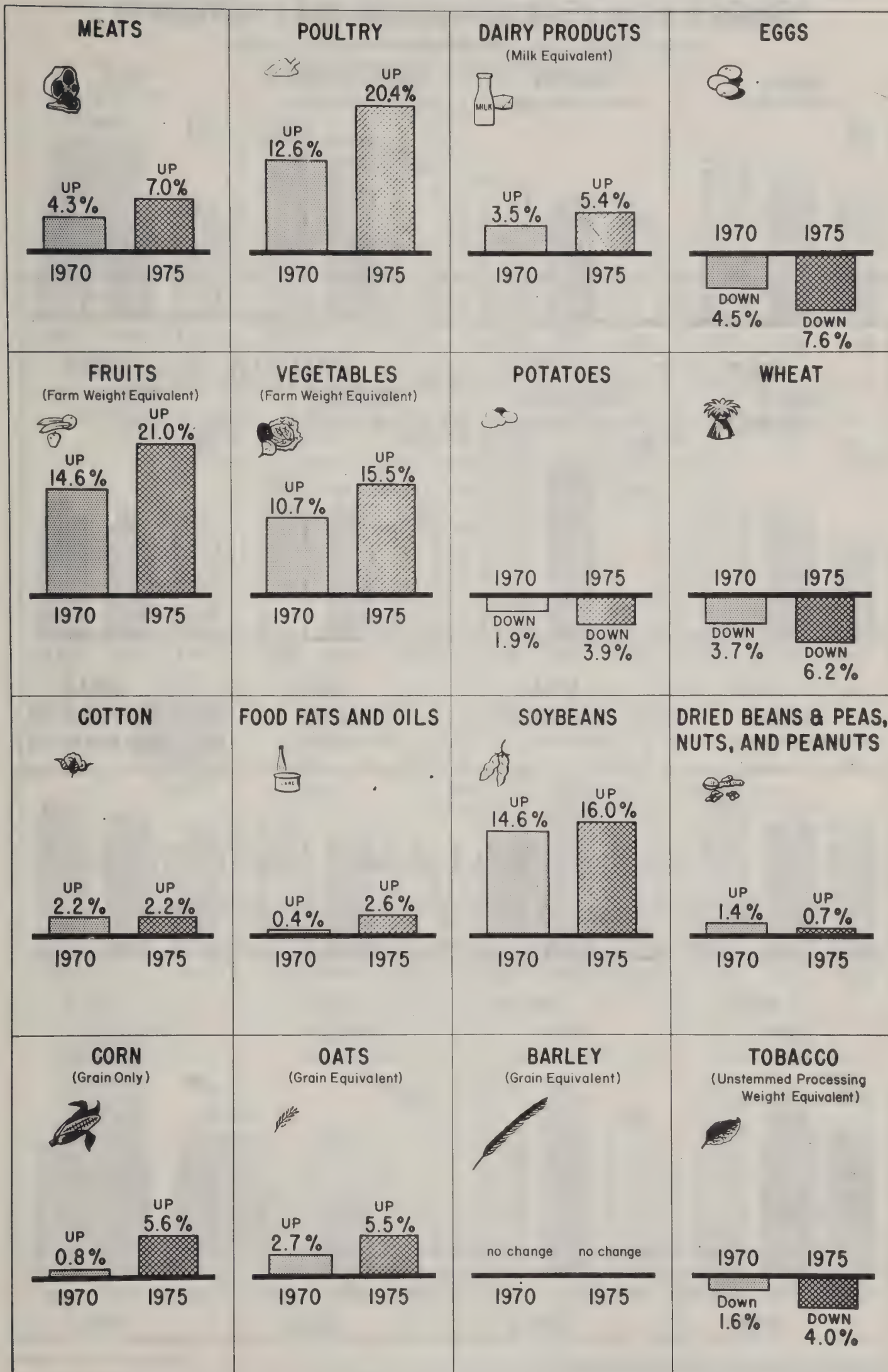
^{2/} Prices paid, interest, taxes and wage rates.

^{3/} Ratio of index of prices received to index of prices paid, interest, taxes and wage rates, on 1910-14 = 100 base.

Data: Depts. of Agriculture and Labor except for fourth quarter 1964.

CHART No. 24

PER CAPITA FARM PRODUCT CONSUMPTION GOALS, 1970, 1975 PROJECTED FROM 1964

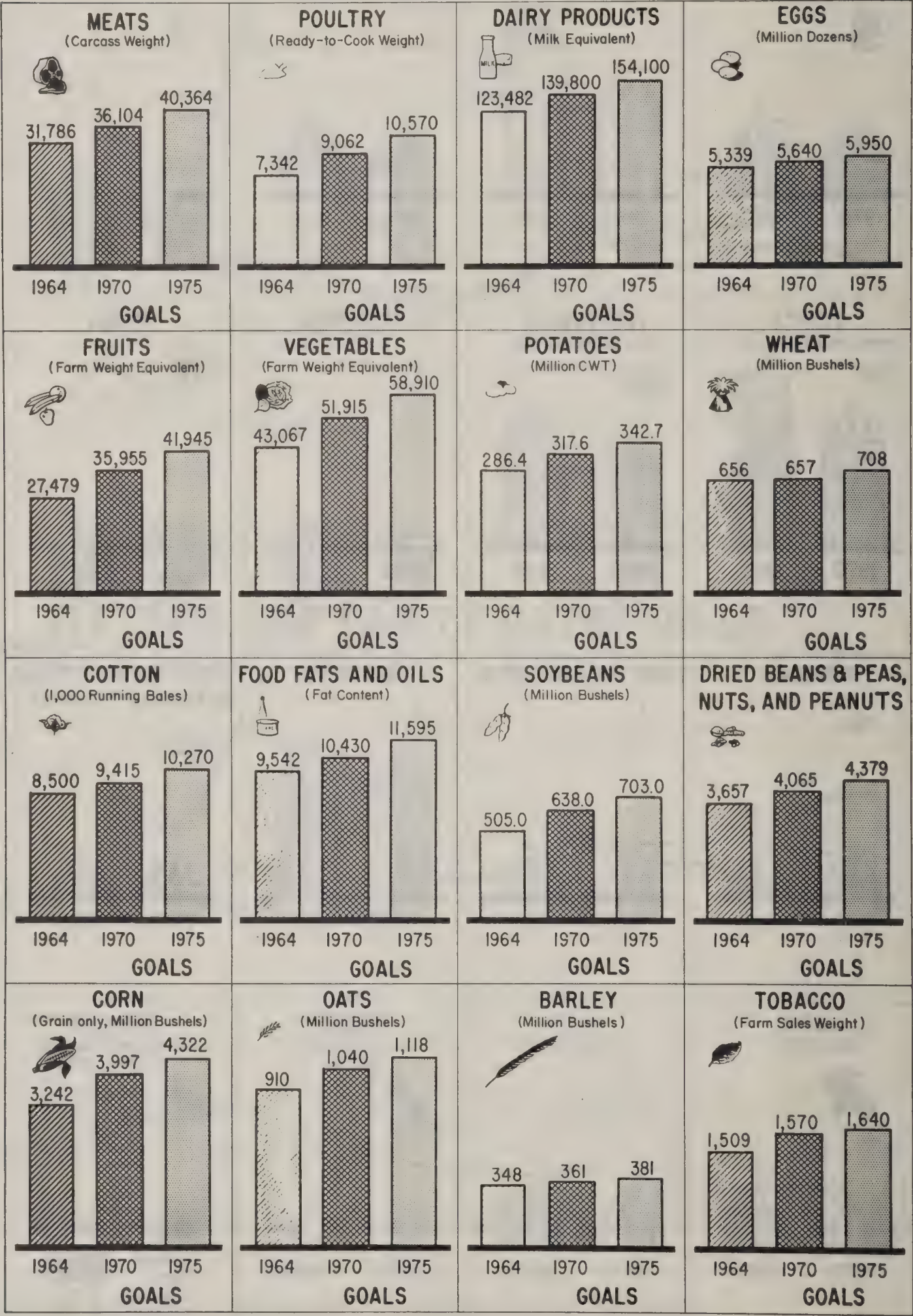


UP Per Capita, population 18 years of age and over.

CHART No. 25

TOTAL DOMESTIC FARM PRODUCT USE ^{1/}
1964, ^{2/} AND GOALS FOR 1970 AND 1975

Millions of Pounds, Primary Distribution Weight, Except Where Noted
(Note Different Scales)



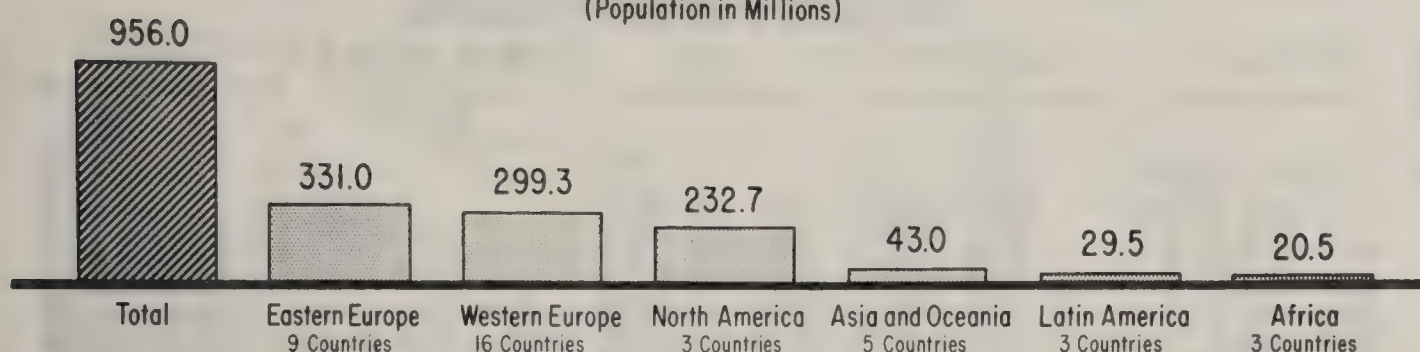
^{1/}Domestic Utilization from Domestic Production
^{2/}Preliminary estimates, Dept. of Agriculture
Data: Dept. of Agriculture

CHART No. 26

A THIRD OF THE WORLD'S PEOPLE LIVE IN COUNTRIES WHERE THE FOOD SUPPLY IS "GOOD"

Number of People in Countries Where the Average Calorie Consumption
Exceeds Basic Requirements by 5 Percent or More

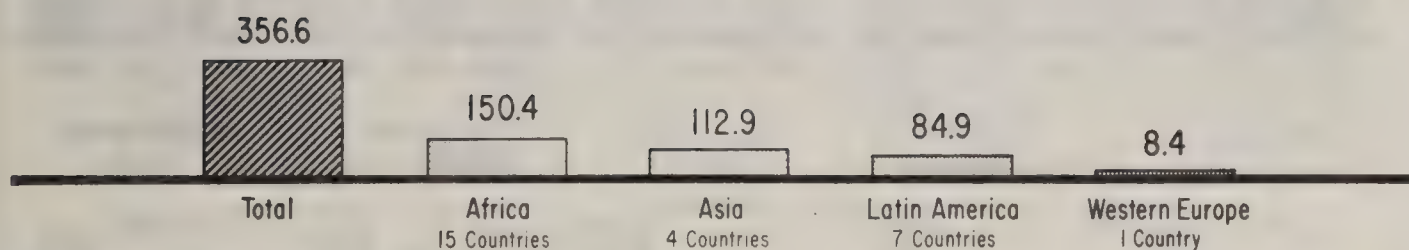
(Population in Millions)



ONE EIGHTH LIVE IN COUNTRIES WHERE THE FOOD SUPPLY IS "FAIR"

Number of People in Countries Where the Average Calorie Consumption
is Within a Range of 5 Percent of Basic Requirements

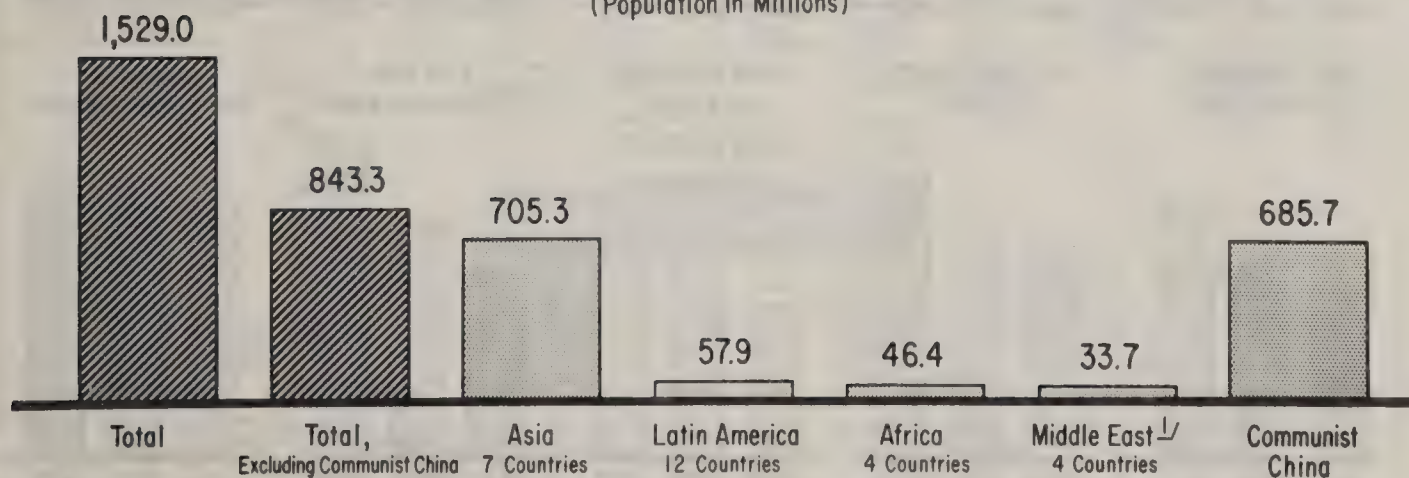
(Population in Millions)



MORE THAN HALF LIVE IN COUNTRIES WHERE MOST PEOPLE ARE "HUNGRY"

Number of People in Countries Where the Average Calorie Consumption
is less than 95 Percent of Basic Requirements

(Population in Millions)



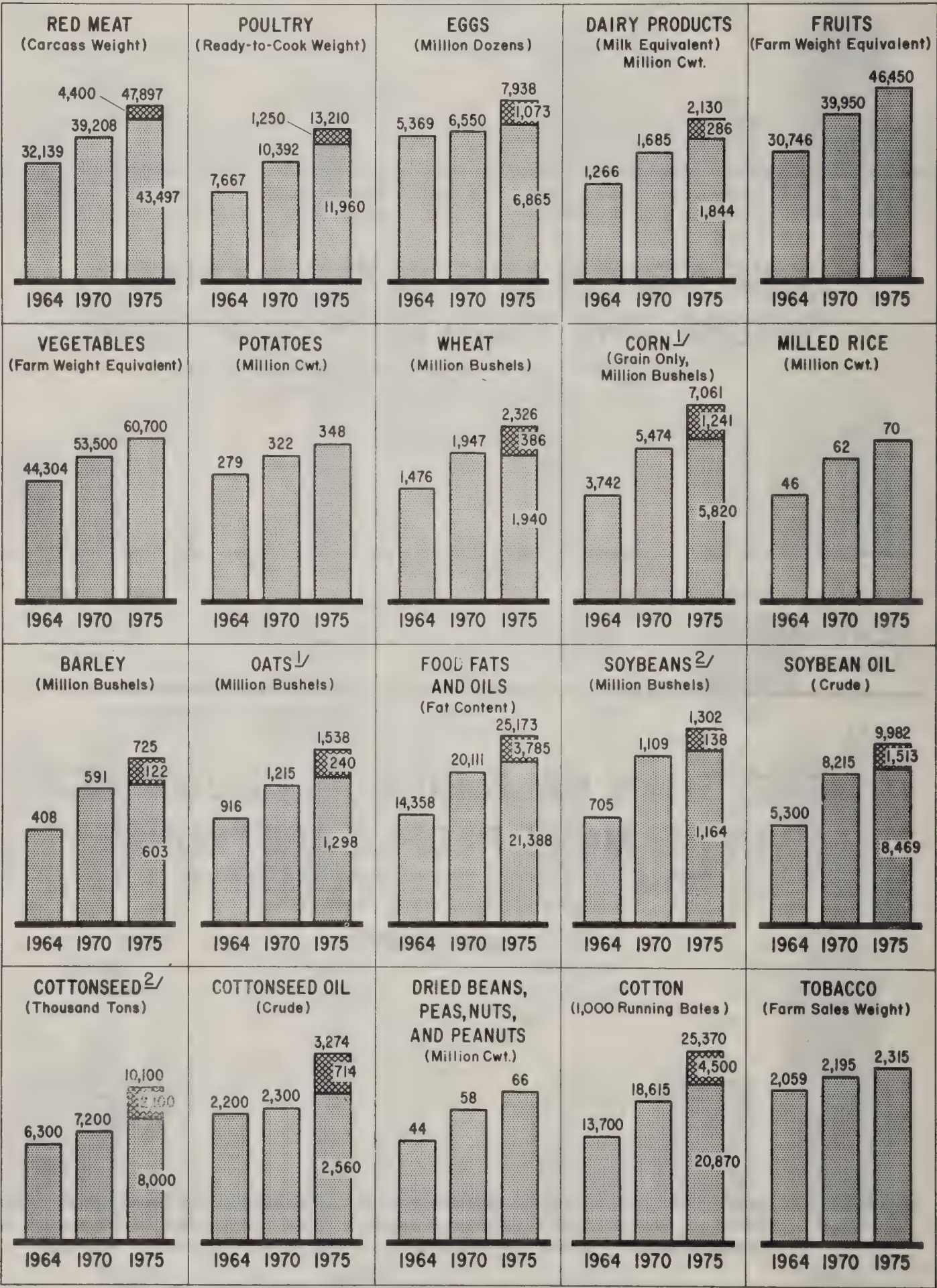
⌋ Excludes Cyprus, Israel, Lebanon, and Turkey, which are included in Asia under "good" and "fair" food supply categories.

Note: All data represent averages for 1959-1961, the latest available data. Chart covers approx. 95% of world population.

CHART No. 27

GOALS FOR TOTAL USE U.S. FARM PRODUCTS
1970 AND 1975, WITH FULL PROSPERITY
AT HOME AND HIGH LEVEL EXPORTS

Millions of Pounds, Primary Distribution Weight, Except Where Noted
Excluding Communist Asia Communist Asia
(Note Different Scales)



¹/Includes additional feed requirements to meet expanded exports of livestock products.
²/Includes additional oilseeds to meet expanded exports of soybean oil and cottonseed oils.

CHART No. 28

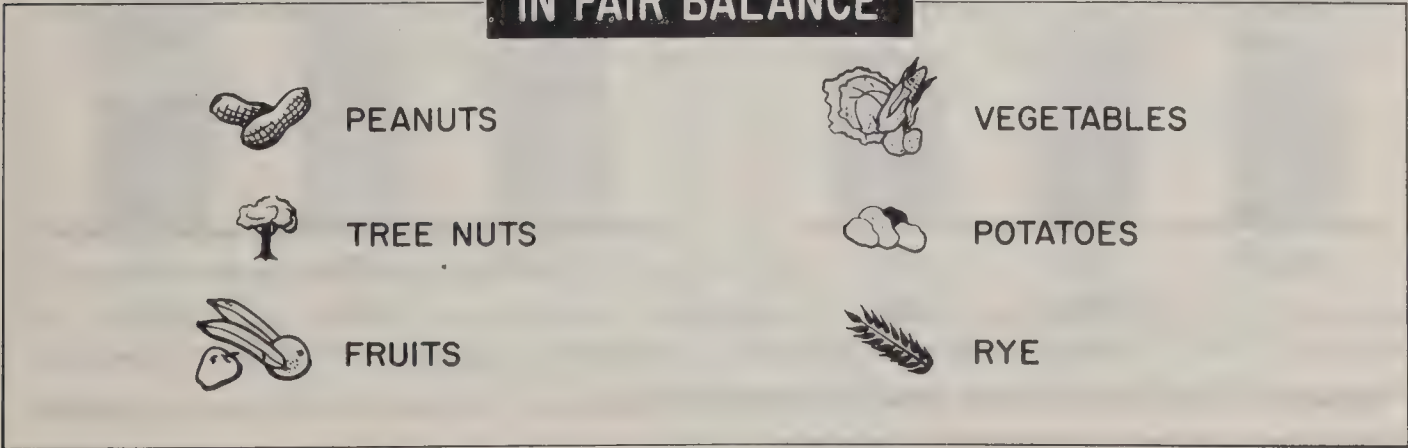
NEEDED ADJUSTMENTS IN ACREAGE AND LIVESTOCK UNITS TO MEET EXPANDED DOMESTIC USE AND EXPORTS

1970 and 1975 Compared with 1964 - Percent Increase

REQUIRING INCREASES



IN FAIR BALANCE

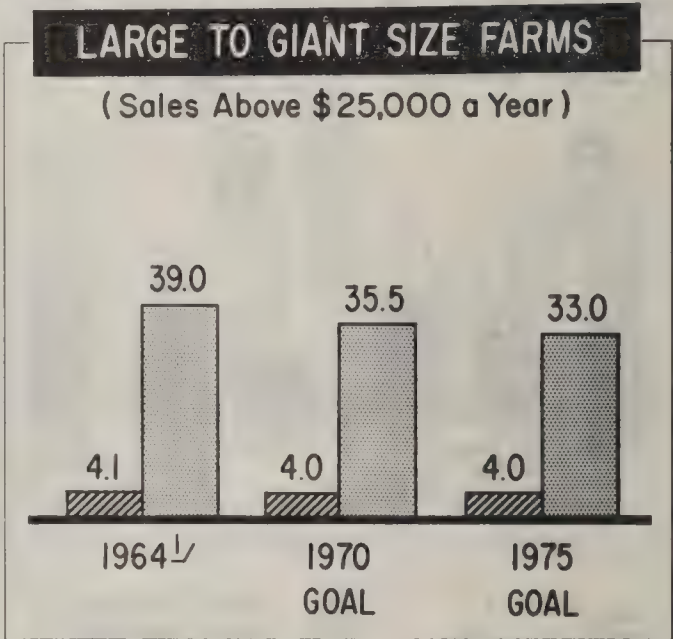
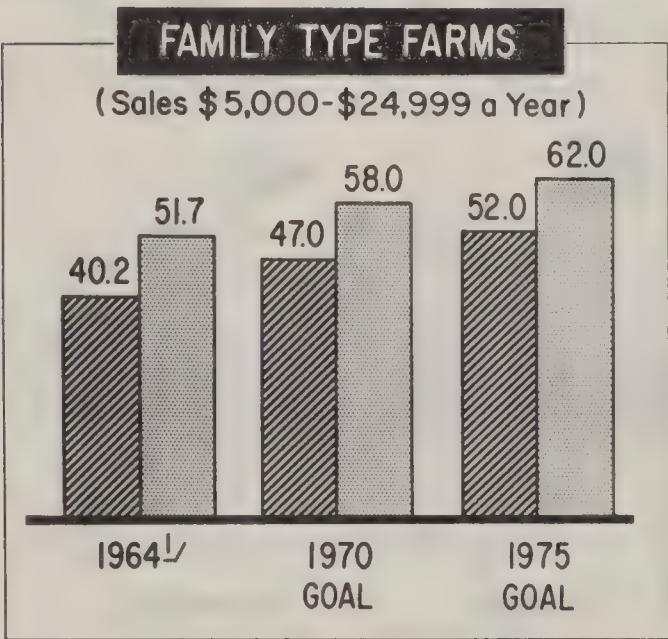
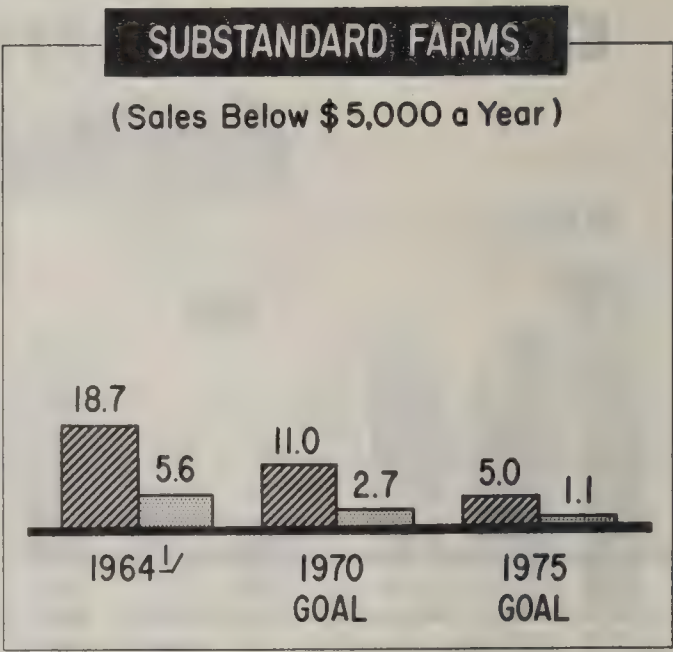
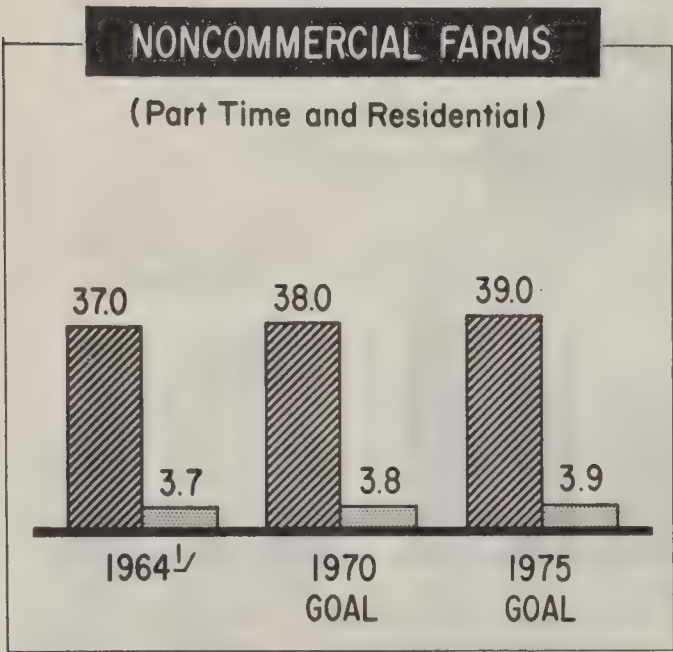


^{1/}Stated as increases in production rather than poultry units.

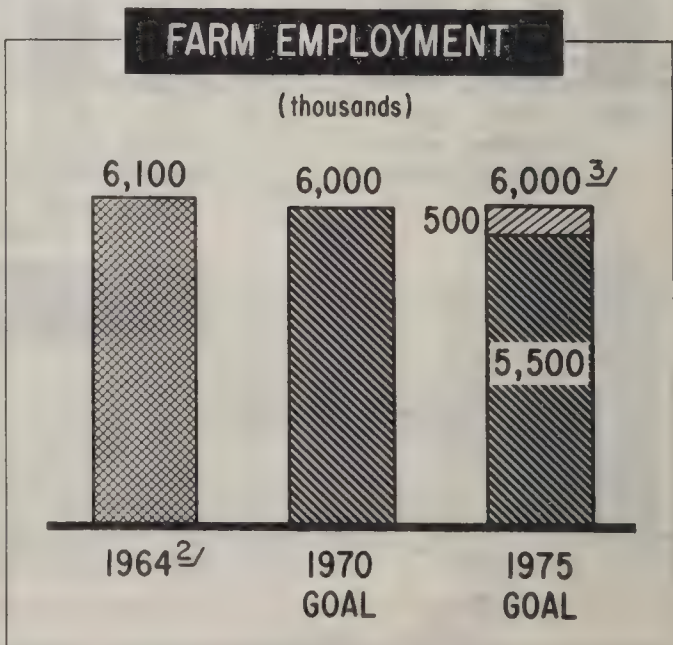
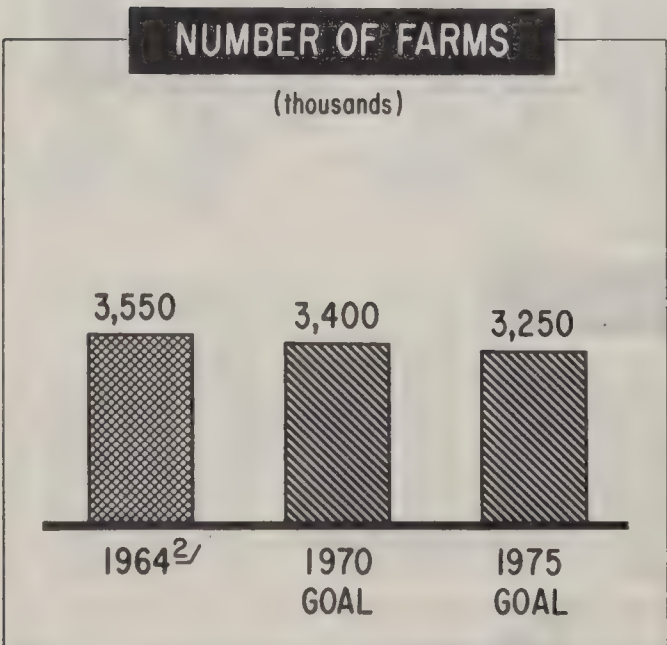
CHART No. 29

TOWARD STRENGTHENING FAMILY-TYPE FARMS

Percent of Total Farms Percent of Total Sales



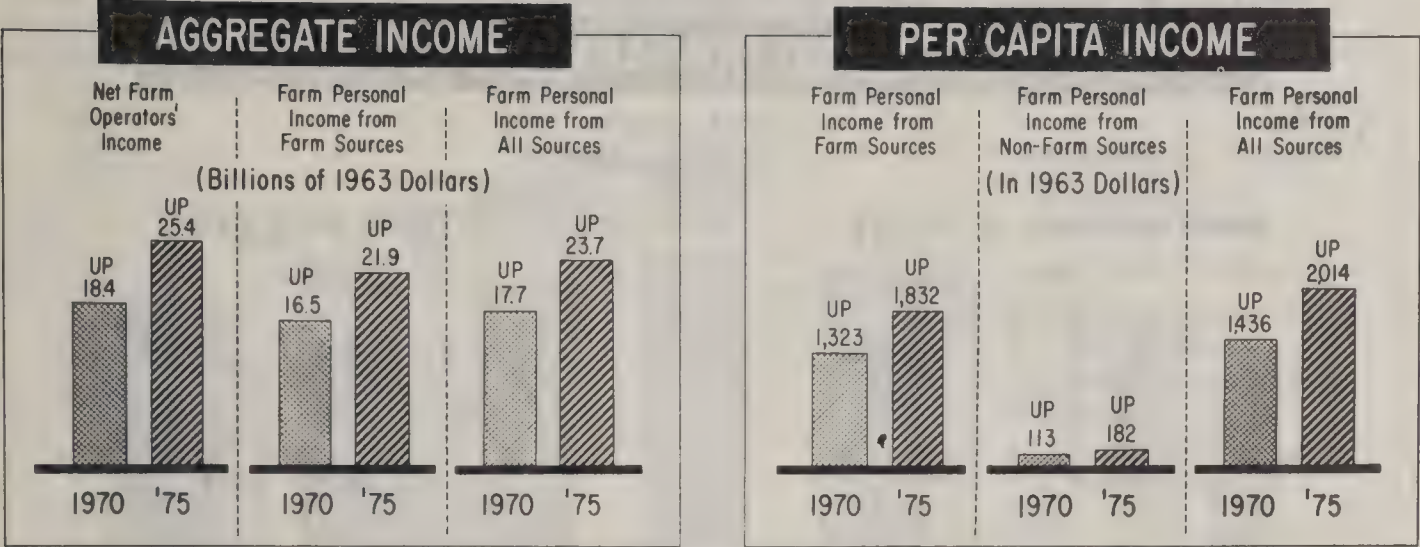
TOWARD STABILIZING THE NUMBER OF FARMS AND FARM EMPLOYMENT



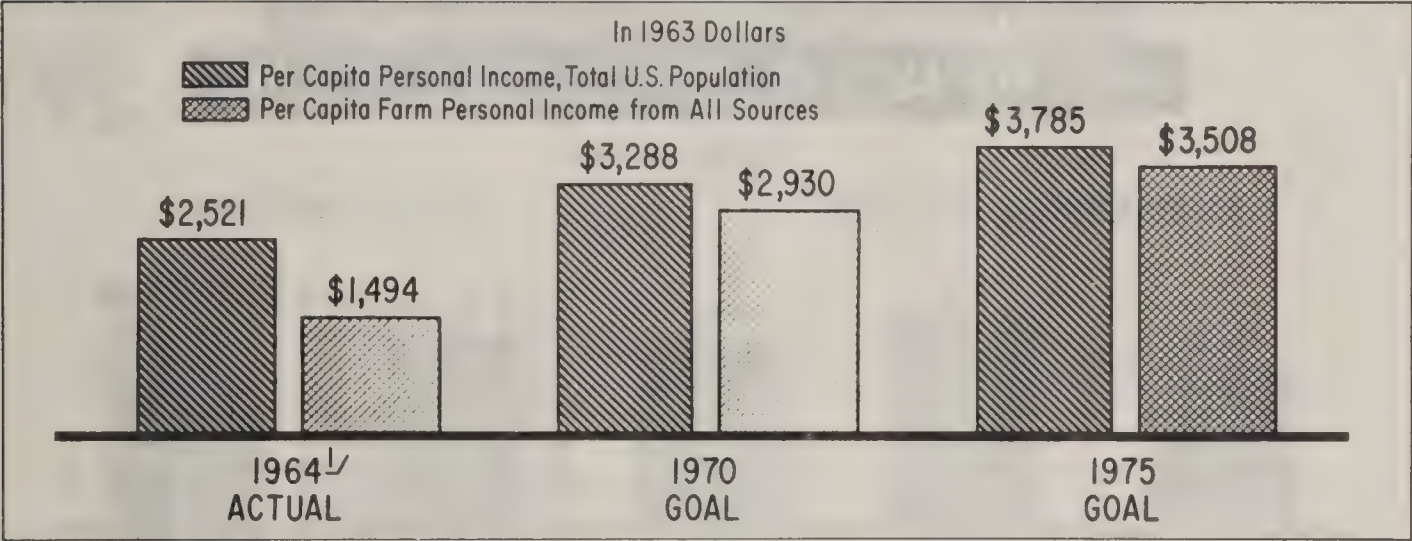
^{1/} Estimated by CEP on basis of earlier Census of Agriculture data.
^{2/} Preliminary estimates by Department of Agriculture.
^{3/} The 5.5 million projection assumes no exports to Communist Asia; the 6.0 million projection assumes exports.

CHART No. 30

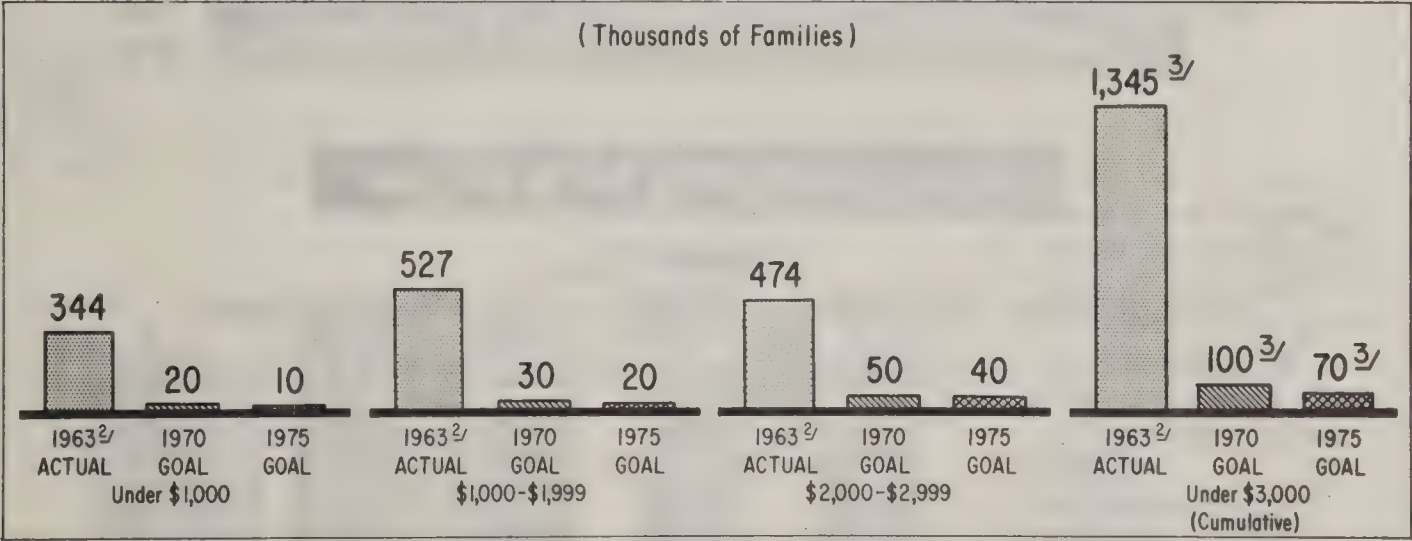
GOALS FOR IMPROVED FARM INCOME
1970 AND 1975, COMPARED WITH 1964 ^{1/}



GOALS TO BRING FARMERS CLOSER
TO INCOME PARITY WITH OTHERS



GOALS TO REDUCE FARM POVERTY



^{1/} In 1964 estimated on basis of first three quarters.

^{2/} Latest year for which income distribution data are available.

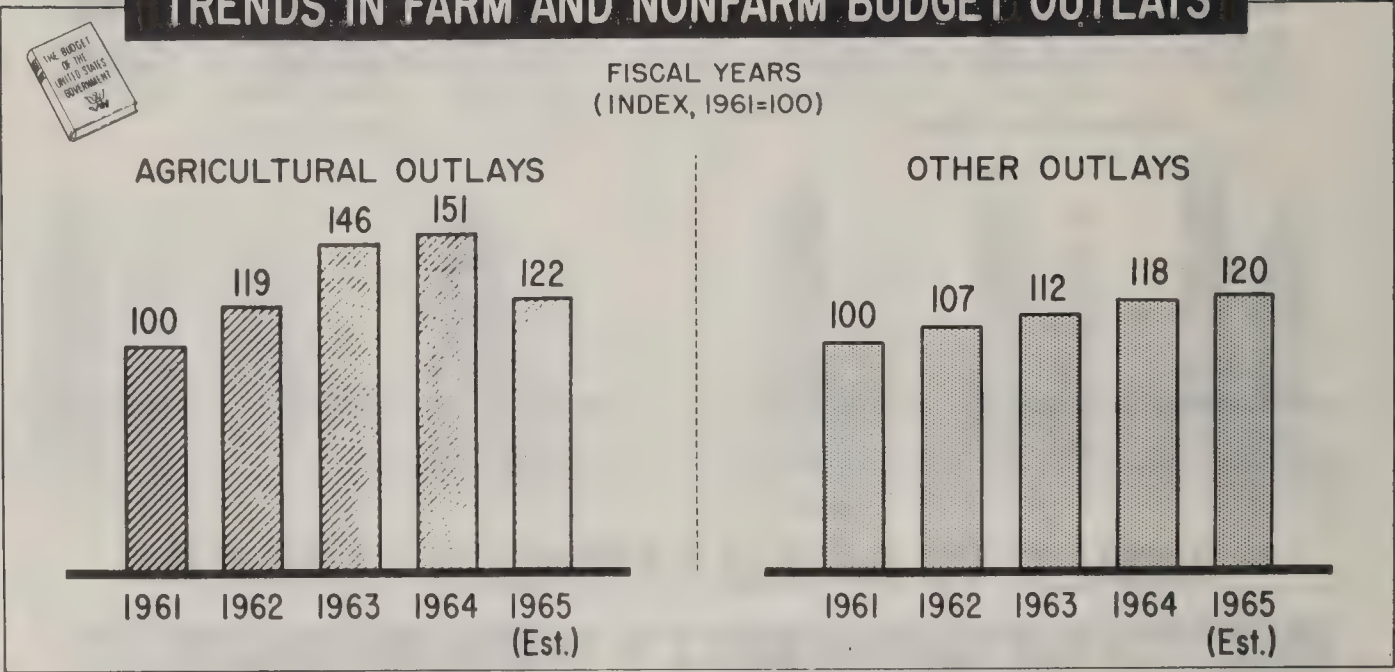
^{3/} In 1963, there were 3.1 million farm families (1.345 million = 43.4%); 1970 estimate is 2.9 million farm families (100 thousand = 3.5%); 1975 estimate is 2.8 million farm families (70 thousand = 2.5%).

Data: Actuals, Depts. of Agriculture and Commerce; goals, CEP.

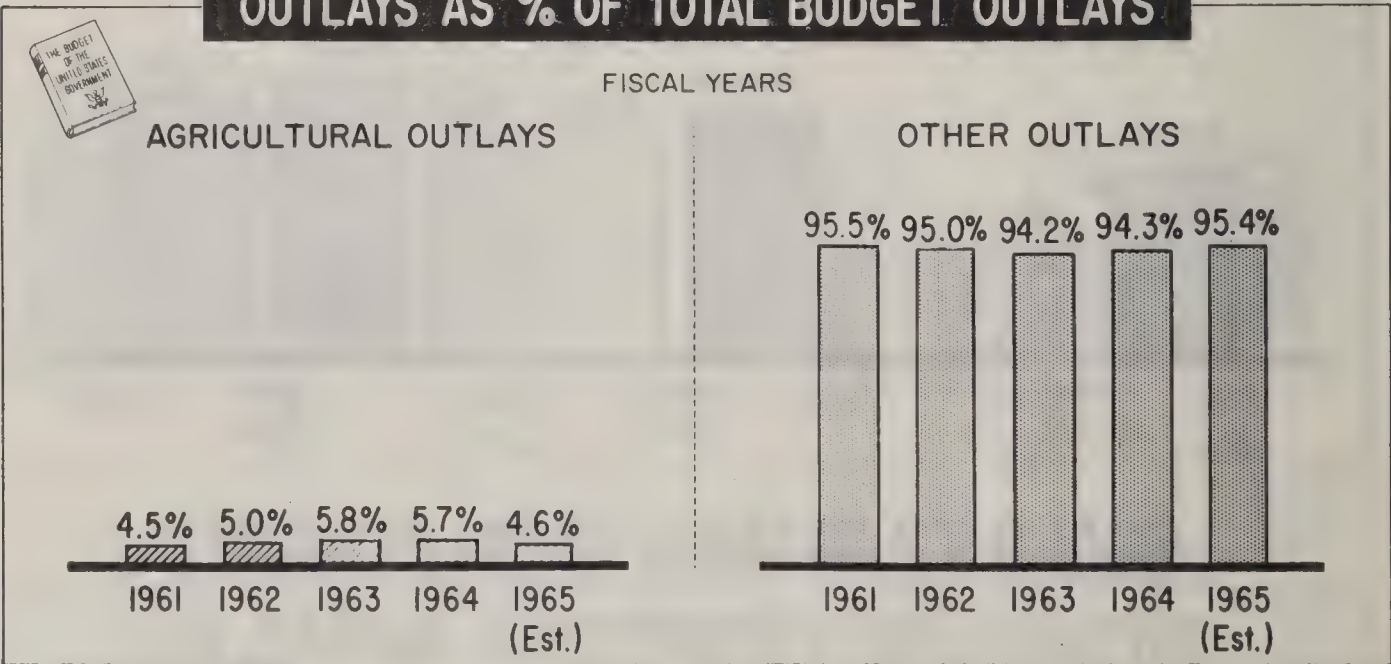
CHART No. 31

FARM OUTLAYS IN THE FEDERAL BUDGET
COMPARED WITH OTHER OUTLAYS

TRENDS IN FARM AND NONFARM BUDGET OUTLAYS



OUTLAYS AS % OF TOTAL BUDGET OUTLAYS



BUDGET OUTLAYS AS % OF GNP

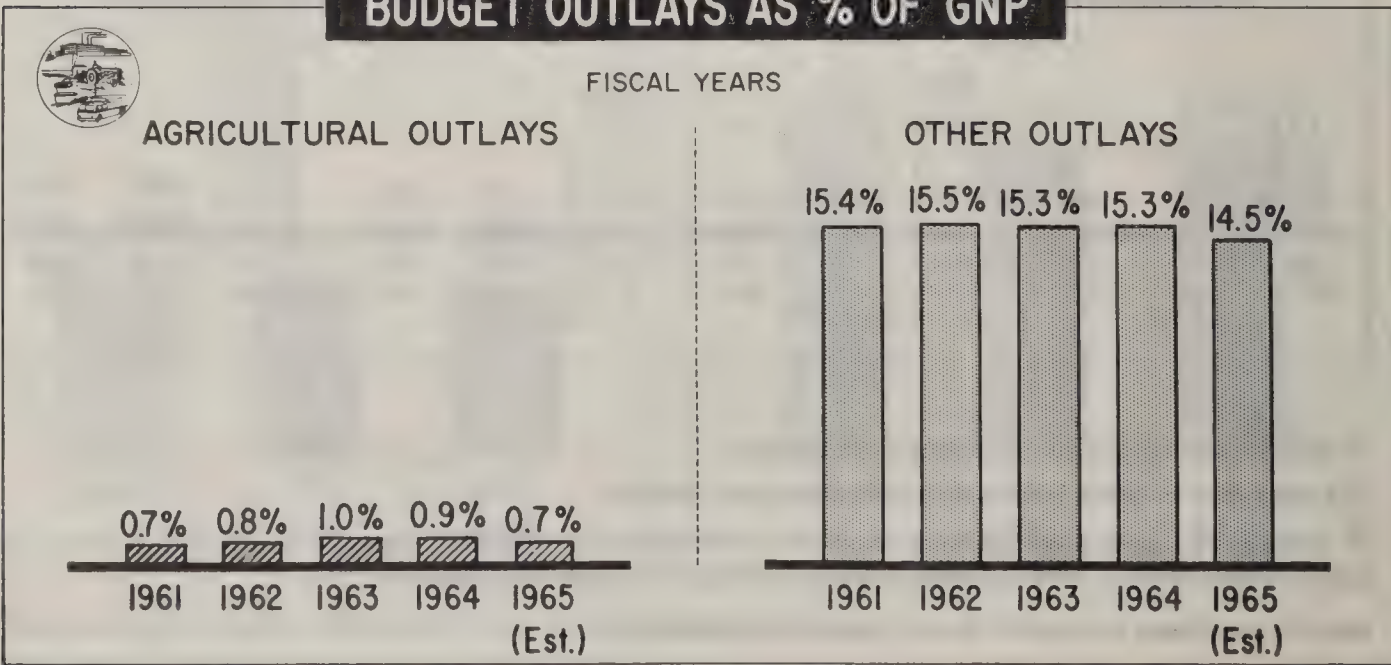
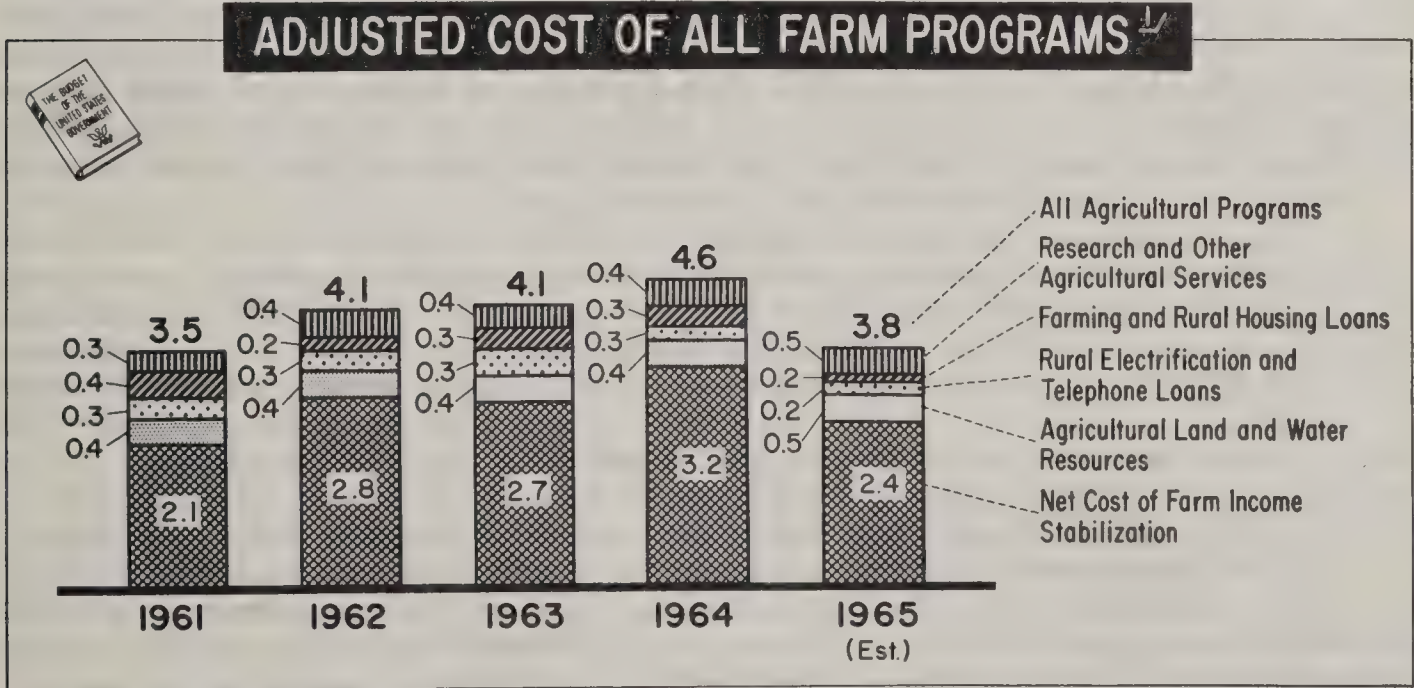
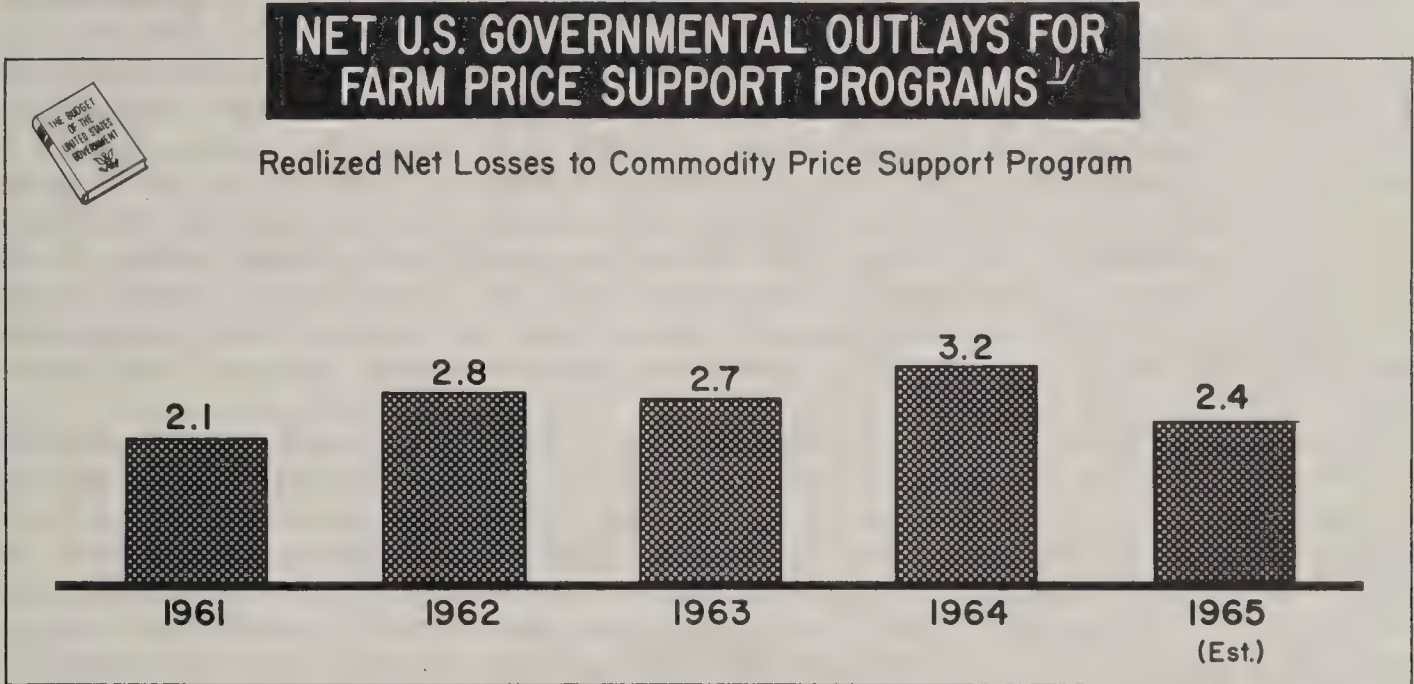
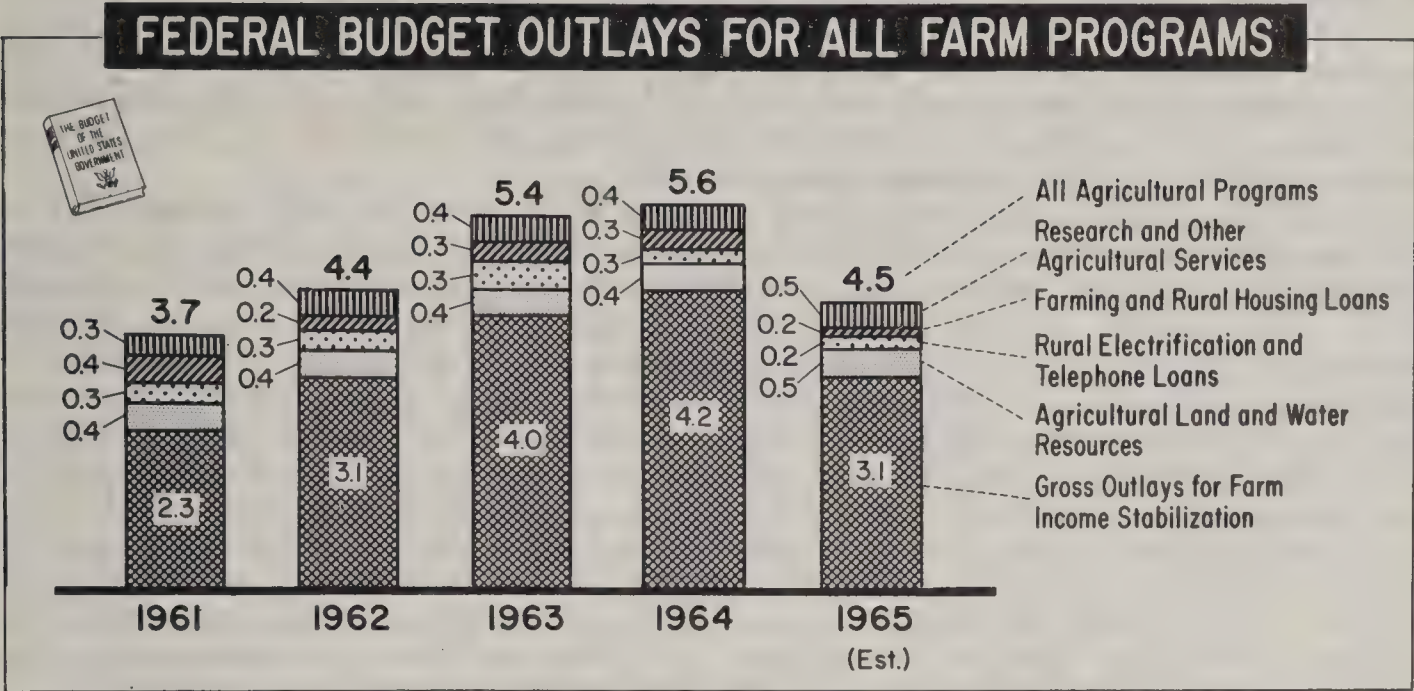


CHART No. 32

FARM PROGRAM COST USUALLY OVERSTATED

Fiscal Years (In Billions of Dollars)



⌋ Net cost of farm income stabilization.

Data: Department of Agriculture and Bureau of the Budget.

The President's farm message of February 4, 1965, sets forth magnificent objectives to include the American farm population in the long march toward the Great Society. But the legislation now under consideration by this committee, emanating largely from the Department of Agriculture, would not, if enacted in anything like its present form, offer any fair prospect of moving the American farmer and his family along this pleasant road. It would instead leave them in the ditch, where they have already been for so many years, neglected and largely forgotten, instead of joined in the forward march which most others have been and are still enjoying. The current legislative proposal simply does not depart enough from the methods of the past to reverse the dire consequences of these methods.

The stark facts in the farm situation should by now be well known. From 1947 to 1964, measured in 1963 dollars, farm personal income from all sources declined 24.8 percent, while total nonfarm personal income increased 97 percent. From 1953 to 1964, net farm operators' income declined at an average annual rate of 1.4 percent, while total nonfarm income advanced at an average annual rate of 3.6 percent. In 1963, the median income of all farm families averaged \$4,107, while that of nonfarm families averaged \$7,644, or 86 percent higher. Thus, the farm family in 1963 had only about 53 percent of income parity with others, and the situation is even worse today. More than 43 percent of all farm families now live in poverty, contrasted with only about 17 percent of nonfarm families. Comparing 1964 with 1947, the farm population dropped 25.8 to 13.3 million; the number of farms dropped from 5.9 to 3.5 million; and farm employment fell from 10.4 to 6.1 million. All this has been accompanied by the rise of corporate or giant farms, and the decline of the family-type farm.

Far less generally recognized is the serious extent to which the deflation of farm income and the forcing of farmers off the land have hurt the U.S. economy and the nonfarm population. Although farmers are now less than 7 percent of the total U.S. population, the deficiency in farm income now constitutes more than 18 percent of the deficiency in total U.S. personal income which is now mainly responsible for the excessive idleness of manpower and plant throughout the Nation. The forced net withdrawal of workers from the farm labor force, cumulatively from 1953 forward, constitutes today close to 50 percent of the total true level of unemployment in the United States today. The excessively rapid population shift from rural to urban areas has grossly multiplied the burdens of poverty, unemployment, and other costs in these urban areas. It has solved nothing, anywhere.

Neither "inefficiency" nor "overproduction" and "farm surpluses" explain the tragedy of American agriculture. From 1947 to 1964, output or productivity per man-hour on the farm rose 176 percent, while the rise in the nonfarm sector was only 56 percent. For the period 1953-64 as a whole, the percent of total U.S. farm output not currently consumed averaged 1.8 percent, while the "surpluses" in the nonfarm economy (measured necessarily in a different way) were: 22.2 percent of auto capacity idle; 24.8 percent of steel capacity idle; 8.8 percent of total U.S. productive power unused; and a true level of unemployment (including the full-time equivalent of part-time unemployment and concealed unemployment due to scarcity of job opportunity) coming to 8.1 percent of the civilian labor force. In 1964, only 0.6 percent of our total farm output was not currently consumed, while 13.7 percent of auto capacity was idle, 21 percent of steel capacity, and 11.8 percent of total U.S. productive power, and the true level of unemployment was 8.3 percent.

The real reasons for the farm tragedy have been and still are (a) insufficient consumption of farm products in the United States, especially among the almost 70 million Americans who are either poor or deprived, (b) insufficient exports, especially to the half of the world's population that goes hungry, and (c) towering above all else, the relative weakness of the farmer in the marketplace, which has caused the price-parity ratio to fall from 115 in 1947 to 76 in mid-April 1965 (even 100-percent price parity yields only about 60-percent income parity). This weakness is not being compensated for to an acceptable degree by our national farm policies, although this has been their explicit purpose from the outset.

To include the American farm family in the march toward the Great Society, and thus to recognize that the Great Society itself will be unattainable without the restoration of American agriculture, the following basic changes in national farm policies call for embodiment in immediate legislation:

(1) To expand domestic utilization of our farm products, in addition to more strenuous and effective efforts to restore maximum employment and production

throughout the U.S. economy, we should implement the proposition that all American families should have an adequate and nutritious diet as a matter of right, even before we lift them out of the poverty which now denies this right to them. The distributive techniques for thus expanding domestic food consumption are well tested, and need only to be utilized much more extensively. It is a sad commentary that, at the very outset of a nationwide "war against poverty," the current legislation attempts to "save" a few hundred million dollars in the Federal budget (which might be collected through progressive taxation and wisely directed toward improved farm income) by imposing taxes upon the bread and rice which loom large in the diets of poor families, even while we are removing the excise taxes on many luxuries such as furs and jewelry.

(2) We should greatly extend, even at increased public costs, our exports of food to those hundreds of millions of free peoples who are in a desperate race between further starvation and threatened revolution. This is by far the best investment we could make on the worldwide stage.

(3) Insofar as some voluntary adjustments in the pattern of farm production are needed, we should use selective income inducements rather than income deflation toward this end; and above all, we should lift our farm production sights to what our people really need and can use beneficially, instead of lowering these to what a sluggish economy with almost two-fifths of its people poor or deprived "can afford"—with proper allowance also for needed increases in exports.

(4) We should gradually substitute, in fact and not just by way of pious declaration, the goal of income parity rather than price parity for farmers, recognizing that even 100 percent of price parity yields only in the neighborhood of 60 percent of income parity. In facilitation of this, and especially so long as the price-parity formula is adhered to, our basic farm legislation should not confer upon the Secretary of Agriculture the discretionary authority to move about 35 percent below the maximum price-support levels permitted by the legislation. I submit that the Secretary should be bound by the maxima.

(5) We should, as rapidly as feasible, substitute direct income payments to farmers for generalized price supports, and direct these income payments to those farm families whose incomes are too low. This shift would facilitate commercial exports, benefit the American consumer, and greatly reduce Government costs relative to the benefits achieved. Indeed, farmers should be helped not because they are farmers but because they are poor; and this entire effort should become an integral part of the "war against poverty." Among other benefits, this would make the farm program more understandable and acceptable to the 93 percent of our people who are not in agriculture.

(6) We should, by legislation, prevent the CCC from disposing of Government-held farm commodities at prices which compete with disposition by farmers themselves and hurt farm income. Any attempt by the Government to make a better showing on the Government's books by action inimical to farm income is diametrically in conflict with the core purpose of farm legislation and is self-defeating in the long run even from the viewpoint of public costs. The vastly exaggerated "surpluses" can be managed and wisely utilized without using them as a weapon against farmers.

(7) Especially in view of the staggering burden of farm debts and the farmer's especially heavy dependence upon credit, we should reverse the Federal Reserve Board policy of tight money and rising interest rates. Both income and credit policies should focus upon strengthening the family-type farm.

(8) We should greatly expand—with appropriate Federal aid—those public programs which are even more deficient in rural areas than elsewhere, such as housing, educational and health facilities and personnel, etc. To do this, we should substitute a balanced fiscal program of increased outlays and equitable tax adjustments for the unrestrained orgy of more and more tax reduction, much of it for those who do not need it.

(9) Instead of continuing to "fly blind" on national farm policies, we should rationalize these policies by projecting long-range goals for farm employment, production, and purchasing power, analogous to those called for under the Employment Act of 1946. This very rationalization would make it clear that, despite the amazing advance of farm technology, we need considerable expansion of acreage and livestock breeding units, and a virtual stabilization of the farm population, looking forward to 1970 and 1975, if we are to have a healthy and serviceable agriculture in a fully employed American economy, make due allowance for adequate food reserves, and contribute effectively to the war against

starvation and poverty in other areas of the world. Even if this were not true—and it is true—we should recognize the urgency of efforts to rehabilitate and utilize our farm people where they now are. This holds far more promise on all scores than to continue to believe that farm people or others can be helped by the continued massive flow of unfortunate human beings from the farms to the cities and other industrial areas, where the new technology and automation are presenting a difficult enough challenge on the job front without compounding this problem by the influx of dispossessed farm people.

(10) Especially in view of the fact that concern about the “cost” to the Government of the farm program tends to thwart needed efforts to lift farm income, it seems to me high time to insist, legislatively if need be, upon a more accurate statement of these costs. Expressed as a percentage of total national production, agricultural outlays in the Federal budget fell from 1.0 percent in fiscal 1963 to 0.7 percent in fiscal 1965. Nor do the portrayals of agricultural outlays in the Federal budget allow for recoupments on CCC investments under the price-support program. This proper allowance would reduce the conventionally stated costs by 15 percent for the 5-year period 1961–65 as a whole. And despite some commendable adjustments by the President in the fiscal 1966 budget, some programs are still charged to the agricultural category which should properly be assigned elsewhere. In any event, the programmatic changes suggested above would reduce Government costs while improving the farm program.

I cannot find in the pending farm legislation any sufficiently encouraging response to the lessons of experience or the needs of the future. Despite the broad commitment in the President’s farm message of February 4 to utilizing our farm abundance to serve needs both at home and overseas, the pending bill breathes the philosophy pointing toward vast further curtailments in our farm productive resources. Instead of embracing the President’s declared goal of moving toward income parity for farmer families, the pending bill vests discretion in the Secretary of Agriculture to lower support prices to 65 percent of price parity, which means far less than 65 percent in income terms. Instead of fusing our national farm program with the President’s declaration of war against poverty which has stirred the minds and hearts of the American people, the pending bill, in its practical consequences if enacted, would not help much if at all to lift the yoke of poverty from the more than 47 percent of all farm families who still endure it. Instead of recognizing, as we have elsewhere, that considerations of Government “costs” should be subordinated to considerations of the real wealth of nations, and instead of subordinating the short-range condition of the Federal budget to the long-range well-being of the U.S. economy and people, the pending bill seems preoccupied with the ledgers of the Department of Agriculture.

I therefore trust that this committee may find ways to write some substantial improvements into the pending bill, and thus pave the way for further gains as time and circumstance permit.

WHEAT

The CHAIRMAN. Without objection there will be placed in the record at this point a letter addressed to Senator Aiken, dated June 17, 1965, and signed by C. W. Landry, president and manager of Crosby Milling Co.

(The letter referred to follows:)

BRATTLEBORO, VT., June 17, 1965.

Senator GEORGE D. AIKEN,
U.S. Senate, Washington, D.C.

DEAR SENATOR AIKEN: It has come to our attention that a bill (S. 1702) now before the Senate Committee on Agriculture greatly damages us. This bill contains language which would amend section 379D(D) of the Agricultural Adjustment Act of 1938 in such a way that wheat would be substituted for corn and grain sorghum as a raw material for industrial uses. The language redefines “food product” so that processors of wheat for products not used in human consumption would be exempt from buying wheat certificates. This would subsidize wheat as a replacement for corn and grain sorghum—nonfood industrial uses. The corn mill industry for decades has produced the greater bulk starches for industrial use in the United States. The reason has been that the domestic price of wheat historically has been substantially higher than the domestic price of corn—with or without Federal support program. A major reason for the price relationship has been that the costs of producing corn are lower than the costs of producing wheat. This holds true of grain sorghum.

The corn wet millers processed half of the corn which is not either fed on farms or exported—over 200 million bushels. In addition, the corn dry millers would be equally adversely affected. They use about 1 million bushels of corn annually.

A justification which has been suggested for the language of the bill is that it would make it possible for wheat processors to obtain wheat at world prices—that this would be equitable since corn processors can today buy corn at world level. This argument is both incorrect and irrelevant.

The United States, as the largest producer of corn in the world, sets the world price today. Domestic processors of wheat should buy wheat at the domestic price since only a trickle of foreign wheat can come into this country because of a rigid import quota. Thus, the argument that the new definition of food product simply enables both wheat and corn processors to buy their raw materials at the world price has no bearing whatever on this question.

We believe that the objective of wheat processors is to obtain Government financial aid to make inroads on the market heretofore served economically by the corn and grain sorghum processors and farmers.

Legislative assistance to one industry at the expense of another is truly a dangerous procedure to establish and certainly does not fit into the free enterprise system.

The bill, similar in interest to one killed by the House Committee on Agriculture will help neither farmer, industry, nor the national economy. Uneconomical competition from wheat for industrial uses amply supplied by corn and grain sorghum will not create new demand, but simply switch the demand from corn and grain sorghum.

The House Committee on Agriculture has been questioning comparable legislation and we hope it will reject any change in the definition of food product contained in section 379D(D) of the Agricultural Adjustment Act of 1938, as amended.

We also strongly urge that the Senate Committee on Agriculture and Forestry reject any change.

We write to you, of course, not only as senior representative member of that committee, but as one of your constituent industries since we have plants at Brattleboro and St. Albans.

Sincerely,

C. W. LANDRY,
President and Manager, Crosby Milling Co.

The CHAIRMAN. The committee will stand in recess until 2 o'clock. (Whereupon, at 1 p.m., the committee recessed, to reconvene at 2 p.m. on the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

We have today as the first witness for this afternoon Mr. Charles B. Shuman, president of the American Farm Bureau Federation.

Mr. Shuman, we are glad to have you. I notice you have quite an extensive statement. Without objection I would suggest that the statement be placed in the record at this point and you may have the privilege to highlight it for us.

STATEMENT OF CHARLES B. SHUMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. SHUMAN. Thank you, Mr. Chairman and Senator Aiken. I will point up tables as we go along. Actually, there are 20 pages of tables. It is double spaced so it is not as bulky as it might seem.

We appreciate the opportunity to present our views with regard to programs for wheat, feed grains, cropland adjustment, rice, cotton, the transfer of allotments, dairy products, and wool.

It is our understanding that these hearings, before your full committee, were planned so that witnesses would present their views in all

of these areas at the one hearing. We are glad to be able to do this because many of these programs overlap in their effects on the producers of different commodities.

Farm Bureau is an organization of farm and ranch families with over 1,647,000 member families in 49 States and Puerto Rico. Our members, in large numbers, are producers of all of the crops and products involved in these hearings.

We would like to give you our appraisal of current programs and the changes suggested by the administration, as listed in S. 1702, which we understand was introduced by Senator Ellender at the request of USDA. We would then like to offer some constructive alternatives which we hope this committee will seriously consider.

OUR APPRAISAL OF THE CURRENT FEED GRAIN PROGRAM

We will soon complete the marketing of the fourth crop produced under a feed grain program which was originally launched as a temporary "emergency" measure in 1961. Changes have been made in the original program, but these are matters of detail.

Since the current authorization for this program expires with the 1965 crop, a thorough review of its accomplishments, shortcomings, and costs would appear to be in order.

Here are some of the facts that merit consideration:

(1) The feed grain carryover has been reduced, but it is still excessive.

This table gives some of the facts that merit consideration.

(The table referred to follows:)

Carryover, production, and utilization of feed grains, marketing years 1960-64

[Million tons]

	Marketing year beginning in—					
	1960	1961	1962	1963	1964	1965
Carryover.....	74.6	84.7	71.8	63.9	68.7	56
Production:						
Corn.....	109.4	101.5	101.8	114.6	99.4	
Grain sorghum.....	17.4	13.4	14.3	16.4	13.7	
Barley.....	10.3	9.5	10.5	9.7	9.7	
Oats.....	18.5	16.2	16.3	15.7	14.1	
Total.....	155.6	140.6	142.9	156.4	136.9	
Utilization:						
Domestic.....	133.2	136.7	134.2	133.3	131.4	
Exports.....	12.7	17.3	16.8	18.7	18.7	
Total.....	145.9	154.0	151.0	152.0	150.1	

Mr. SHUMAN. The first line across the top of the table shows the carryover for 1960 as 74.6; 1961 it is 84.7; 71.8 in 1962; 63.9 in 1963; 68.7 in 1964; and estimated at 56 in 1965.

The net reduction in the carryover for the 4-year period, 1961-64, is estimated at 28.7 million tons or about one-third of the record stocks on hand at the beginning of the 1961 marketing year. The indicated 1965 carryover of 56 million tons is higher than that reported for any year prior to 1958. Such a carryover is excessive from the standpoint of the farmers who produce feed grains, as it is sufficient to give the

CCC an undesirable and dangerous degree of control over the feed grain market. In announcing the 1965 program, the USDA indicated that a further reduction in stocks is desired.

The point we are making here is that while there has been some reduction, they are still excessive.

The CHAIRMAN. Do you indicate anywhere in your statement what the cost of the reduction of 28 million is?

Mr. SHUMAN. Yes; we have that a little later on, Senator.

(2) The feed grain program should not be credited with the full reduction in carryover stocks.

Part of the reduction in stocks reflects reduced production of oats—a crop that is not under the program; part reflects effects of adverse weather on 1964 crop yields and part reflects increased utilization. The increase in utilization resulted from increased exports which are not attributable to the program and an increase in domestic feed use which was achieved in large measure at the expense of lower livestock prices.

It has been argued that reduced production under the feed grain program stopped the buildup in carryover in 1961 and 1962. On the other hand, it should be noted that feed grain production reached a new all-time high of 156.4 million tons in 1963—the third year of the program—it has been going 3 years and feed grain production hit an alltime high—and that this record crop resulted in an increase of almost 5 million tons in the carryover.

Feed grain production dropped to 136.9 million tons in 1964 due mainly to unusually dry weather in major corn and grain sorghum producing areas. Even with this reduction, there would have been a net increase in feed grain stocks for the 4-year period of the feed grain program if it had not been for increased utilization and reduced production of feed grains not covered by the program.

The next page is the analysis of what I have just said.

(The analysis is as follows:)

Factors in the reduction of feed grain stocks

[Million tons]

	Marketing year beginning in—				Total for 1961-62	Total for 1961-64
	1961	1962	1963	1964		
1. Change in carryover.....	-12.9	-7.9	4.8	-12.7	-20.8	-28.7
2. Change in production from 1960 of crops covered by program:						
Corn.....	-7.9	-7.6	5.2	-10.0	-15.5	-20.3
Grain sorghums.....	-4.0	-3.1	-1.0	-3.7	-7.1	-11.8
Barley.....		.2	-.6	-.6	.2	-1.0
	-11.9	-10.5	3.6	-14.3	-22.4	-33.1
3. Change in production from 1960 of crops not covered by program:						
Barley.....	-.8				-.8	-.8
Oats.....	-2.3	-2.2	-2.8	-4.4	-4.5	-11.7
	-3.1	-2.2	-2.8	-4.4	-5.3	-12.5
4. Change in utilization form 1960 market- ing year.....	-8.1	-5.1	-6.1	-4.2	-13.2	-23.2
5. Net effect of reduction in production of crops not covered by program and increase in utilization on carryover....	-11.2	-7.3	-8.9	-8.6	-18.5	-36.0
6. Change in carryover due to feed grain program (item 1 minus item 5).....	-1.7	-.6	13.7	-4.1	-2.3	7.3

Mr. SHUMAN. The bottom line is most significant, point No. 6. The change in the carryover due to the feed grain program, and this takes into account—it is item 1 minus item 5. Item 1 is the change in the carryover, and item 5 is the net effect of reduction in production of crops not covered by the program and increased utilization. So if you take out these factors, it cannot be credited to the feed grain program.

You find that the changes were relatively insignificant. It shows that there is a slight decrease—1.7 million tons in 1961, six-tenths of a million tons in 1962, and up 13.7 million tons in 1963, down 4.1 million tons in 1964, or the total for the period was up 7.3 million tons actual increase from 1961 through 1964.

(3) The feed grain program has contributed to higher yields which have tended to offset the effects of acreage reductions, particularly in the case of corn.

As the following figures indicate, the upward trend in corn yields has accelerated under the feed grain program.

That is just a year-by-year recap.
(The recap referred to follows:)

Feed grain yields per acre
[In bushels]

Year	Corn	Sorghum grain	Barley	Year	Corn	Sorghum grain	Barley
1957-----	48.3	28.8	29.8	1961-----	62.0	43.8	30.6
1958-----	52.8	35.2	32.3	1962-----	64.2	44.2	35.1
1959-----	53.1	36.0	28.3	1963-----	67.6	43.3	35.1
1960-----	54.5	39.8	30.9	1964-----	62.1	41.1	37.8

Mr. SHUMAN. The feed grain program has contributed to higher yields in a number of ways.

The price guarantees provided by the program have been high enough to encourage increased use of fertilizer and other yield-boosting practices. Although market prices might well have been higher under the type of program Farm Bureau is recommending, farmers will generally produce more for a guaranteed price than they will for an uncertain market price at the same, or even a higher, level.

This is one of our real important points that we stress, that the stimulation to production is many times greater with guaranteed prices than it is where the price is uncertain but might average at a higher level.

Program payments—particularly those made at or near planting time—have helped to finance the increased use of fertilizer and other production aids.

Participants have been permitted to divert their poorest cropland. The productivity of “diverted acres” has been improved by rest and fertility-building practices. And the year-to-year nature of the program has made it possible to divert different acres in succeeding years where this is to the producer’s advantage.

The CHAIRMAN. Mr. Shuman, have you any data in your statement indicating the trend wherein farmers are now growing for the market rather than for their own use, because of these programs?

Mr. SHUMAN. I do not believe we have it.

The CHAIRMAN. In other words, are there not a lot of farmers today that are producing a lot of feed grains, which was not the case in the past, because of the incentives?

Mr. SHUMAN. Yes; we have got one that will show that.

The CHAIRMAN. Good. I would like to have that if you can.

Mr. SHUMAN. It does not differentiate but it does show the effect of the stimulating effect of increased production.

The CHAIRMAN. What I desire, if you can get it, would be the number of farms that have been engaged in more or less the exhaustive production of corn and other feed grains to sell in the market or to sell to Uncle Sam.

Mr. SHUMAN. I do not know that we have that. I do not know whether it is a figure that we can get or not.

The CHAIRMAN. I have been presented with a table here. This table indicates that in 1957, 61 percent of the corn production was used on the farm whereas in 1964 it went down to 53 percent.

Mr. SHUMAN. We have not incorporated that, but that is a rather significant shift.

The CHAIRMAN. I will place in the record then at this point, if you do not mind, these tables indicating the use not only of corn but of other feed grains.

(The tables referred to follow :)

Corn and sorghum grain: Disposition and value of sales, 1957-64

Crop year	Used on farms where grown (million bushels)				Quantity sold (million bushels)		Season average price (dollar per bushel) ¹	Value of sales (million dollars) ¹
	Feed and seed	Home use	Total	Percent of pro- duction	Total	Percent of pro- duction		
	Corn							
1957 -----	1,850	4	1,854	61	1,191	39	1.11	1,323
1958 -----	2,003	3	2,006	60	1,350	40	1.12	1,513
1959 -----	2,144	3	2,147	56	1,677	44	1.04	1,748
1960 -----	2,136	2	2,138	55	1,770	45	.997	1,764
1961 -----	2,141	(²)	2,141	59	1,484	41	1.08	1,603
1962 -----	2,073	(²)	2,073	57	1,563	43	1.10	1,720
1963 -----	2,206	(²)	2,206	54	1,886	46	1.09	2,063
1964 ³ -----	1,867	(²)	1,867	53	1,682	47	1.16	1,950
	Sorghum grain							
1957 -----	134	-----	134	24	434	76	.973	422
1958 -----	148	-----	148	25	433	75	.999	433
1959 -----	142	-----	142	26	413	74	.858	354
1960 -----	156	-----	156	25	464	75	.836	388
1961 -----	126	-----	126	26	354	74	1.01	358
1962 -----	130	-----	130	26	379	74	1.02	387
1963 -----	142	-----	142	24	446	76	.975	535
1964 ³ -----	120	-----	120	24	371	76	1.06	392

¹ Includes an allowance for unredeemed loan and purchase agreement deliveries valued at the average loan rate, by States.

² Not reported beginning with 1961.

³ Preliminary, to be revised in May 1966.

Oats and barley: Disposition and values of sales, 1957-64

Crop year	Used on farms where grown (million bushels)		Quantity sold (million bushels)		Season average price (dollars per bushel) ¹	Value of sales (million dollars) ¹
	Total	Percent of production	Total	Percent of production		
Oats						
1957.....	946	73	344	27	.605	208
1958.....	1,020	73	381	27	.578	220
1959.....	772	73	280	27	.646	181
1960.....	821	71	334	29	.598	200
1961.....	739	73	273	27	.640	175
1962.....	740	72	281	28	.624	175
1963.....	692	71	288	29	.622	179
1964 ²	622	71	260	29	.628	163
Barley						
1957.....	144	33	299	67	.887	265
1958.....	148	31	329	69	.900	296
1959.....	134	32	288	68	.860	248
1960.....	145	34	286	66	.838	240
1961.....	132	33	263	67	.981	258
1962.....	144	33	293	67	.915	268
1963.....	122	30	284	70	.896	254
1964 ²	116	29	287	71	.942	270

¹ Includes an allowance for unredeemed loan and purchase agreement deliveries valued at the average loan rate, by States.
² Preliminary, to be revised in May 1966.

The CHAIRMAN. I think that is significant.
Mr. SHUMAN. I think so, too, Senator.

(4) The program has increased feed grain acreage as well as yield per acre.
I think this is a very significant table here.
(The table referred to follows:)

Feed grain acreage, 1960-64
[Million acres]

	Crop year				
	1960	1961	1962	1963	1964
Acreage planted ¹	148.5	129.3	125.4	130.4	123.0
Acreage signed up.....		26.7	32.7	25.7	34.3
Total feed grain acreage.....	148.5	156.0	158.1	156.1	157.3

¹ Includes corn, sorghum grain, oats, and barley.

Mr. SHUMAN. It shows the acreage planted each year under the feed grain program and the acreage signed up. Then at the bottom it shows the total feed grain acreage. You will notice that in 1961 there was a signup of 26 million, the next year 32 million, 25 million in 1963, 34 million in 1964, and now we are told there is 36 million this year. This should indicate that if the thing was working that the total feed grain acreage would be held down. Actually it went the other way.

The total feed grain acreage has gone from 148 to 157 million in 1964, and it will probably go up some more this year. This is feed grain acreage planted plus the acres diverted.

The CHAIRMAN. That is it would go up except for the fact that they were paid not to plant on 36——

Mr. SHUMAN. It goes up anyway. The total acreage has gone up. You see, under this feed grain program there is not national base acreage as there is with some of the other programs.

The CHAIRMAN. I see.

Mr. SHUMAN. So whenever a farmer goes into his ASC committee and is unhappy with his acreage, the tendency is to grant the appeal and add the acres, and if they were coming under criticism, they could take it off of me since they know I do not sign up. There has been a lot of this going on, so that the total acreage for production of feed grains has gone up. The potential acreage of feed grains has gone up 9 million acres.

The CHAIRMAN. How can you say that when in 1960 according to your own table it was 148.5 million acres, and in 1964 it was 123 million.

Mr. SHUMAN. I said that the total potential feed grain acreage, the total that is available, including that that they have signed up, has gone up 9 million acres.

The CHAIRMAN. You mean combined——

Mr. SHUMAN. Yes; what they had to do is to sign up 2 acres to get 1 out of production, almost 2 acres.

The CHAIRMAN. Yes; I see.

Mr. SHUMAN. To get 1 out of production they had to sign up almost 2 acres.

The CHAIRMAN. Well, in other words there has been an increase in acreage.

Mr. SHUMAN. A slippage.

The CHAIRMAN. From 1960 to 1964.

Mr. SHUMAN. Yes.

The CHAIRMAN. Of about 11 million acres.

Senator HOLLAND. 9 million.

Mr. SHUMAN. 9 million.

The CHAIRMAN. 9 million; excuse me.

Mr. SHUMAN. 9 million acres. And they have signed up from 25 to 34 million acres and they got an increase in the total of 9 million.

It is apparent from these data that the potential acreage of the four principal feed grains is around 9 million acres greater than the acreage planted the year before the program became operative. Thus, instead of encouraging farmers to shift land that is not needed for feed grain to other uses, the program has significantly increased capacity to produce feed grains.

I do not think there would have been any more than this much expansion in the potential acreage even if we had not had this program. And in fact to a certain extent it is a fraud on the taxpayer because they are paying for 2 acres, almost 2 acres out to get actually 1 acre out.

(5) The feed grain program has been extremely expensive.

Over a 4-year period this program has cost \$3,641 million in payments to farmers and several additional millions in administrative expenses. This year it is estimated to be \$1.4 billion.

Direct Government outlays for diversion and price support payments have been as follows:

This shows how they have gone up, and the uptrend is continuing. (The table referred to follows:)

Payments to feed grain producers
[Million dollars]

	Diversion payments	Price-support payments	Total
1961.....	782		782
1962.....	843		843
1963.....	462	383	845
1964.....	889	282	1,171
4-year total.....	2,976	665	3,641

The CHAIRMAN. Mr. Shuman, in your No. 5 there, this table you have, those reflect only payments to feed grain producers, but it does not show the entire cost——

Mr. SHUMAN. No, that is true.

The CHAIRMAN (continuing). Of the program.

Mr. SHUMAN. This is just the payments.

The CHAIRMAN. I placed in the record, the cost of this program—that is the entire cost as I figured it out—was in excess of \$5.4 billion.

Mr. SHUMAN. That I am sure is a conservative estimate of the cost.

The CHAIRMAN. And the amount of reduction was 28 million tons, 28 million tons, or about \$6 a bushel——

Mr. SHUMAN. Yes.

The CHAIRMAN (continuing). Cost to the taxpayers for the amount reduced over this period.

Mr. SHUMAN. We have this table over on the next page which gives these figures just on the basis of the cost in terms of payments.

(The tables referred to follow :)

Feed grain payments to producers per acre diverted

Crop year	Acres diverted ¹ (millions)	Payments to farmers ² (millions)	Average payment per acre diverted ^{2 3}
1961.....	26.7	\$782	\$29.29
1962.....	32.7	843	25.78
1963.....	25.7	845	32.88
1964.....	34.3	1,171	34.14

¹ From final signup reports.
² Includes price-support payments for 1963 and 1964 since these payments were in reality an additional payment for acreage diversion.
³ Since the acreage actually diverted was somewhat smaller than that shown by the final signup reports, this column understates the payments per acre. On the basis of revised diversion data, payments per acre amounted to \$31.03 in 1961, \$29.89 in 1962, \$34.49 in 1963, and \$36.14 in 1964.

Feed grain payments to producers per bushel of corn-equivalent reduction in the carryover

Crop year	Reduction in carryover			Payments per bushel of corn-equivalent reduction in carryover ¹
	Payments to farmers ¹ (millions)	Tons (millions)	Bushels of corn equivalent (millions of bushels)	
1961-----	\$782	12.9	454	\$1.72
1962-----	843	7.9	283	2.98
1963-----	845	+4.8	+169	-----
1964-----	1,171	12.7	438	2.67
4 years (1961-64)-----	3,641	28.7	1,096	3.62

¹ Includes price-support payments for 1963 and 1964 since these payments were in reality an additional payment for acreage diversion.

Senator HOLLAND. May I ask a question at this point?

Mr. SHUMAN. The bottom of the page, yes.

Senator HOLLAND. All your figures are USDA figures; are they?

Mr. SHUMAN. Yes. We have identification in each case either here or at the end of the statement as to the source, but they are USDA figures.

Senator HOLLAND. In all instances.

Mr. SHUMAN. I think, unless indicated differently, all these are.

Senator HOLLAND. Thank you.

Mr. SHUMAN. Those tables on page 7 give the feed grain payments to producers per acre diverted, and it shows the untrend in the payment per acre that has been necessary to keep up with the signup increasing. Down at the bottom it gives the table which shows the payments per bushel of corn equivalent, but it does not include, of course, all the costs, as the chairman has pointed out, and I might state for the record that actually this \$3.62 which we show here is very conservative. It gives the feed grain program full credit for the reduction in the carryover which is not the case, and it does not include all the costs.

Perhaps a more realistic estimate would be \$5 or more, as you have determined in your calculations.

CCC RESALE PRICE

Mr. SHUMAN. (b) The sale of Government stocks to keep a lid on market prices—which is part and parcel of the feed grain program—is destructive of the market system.

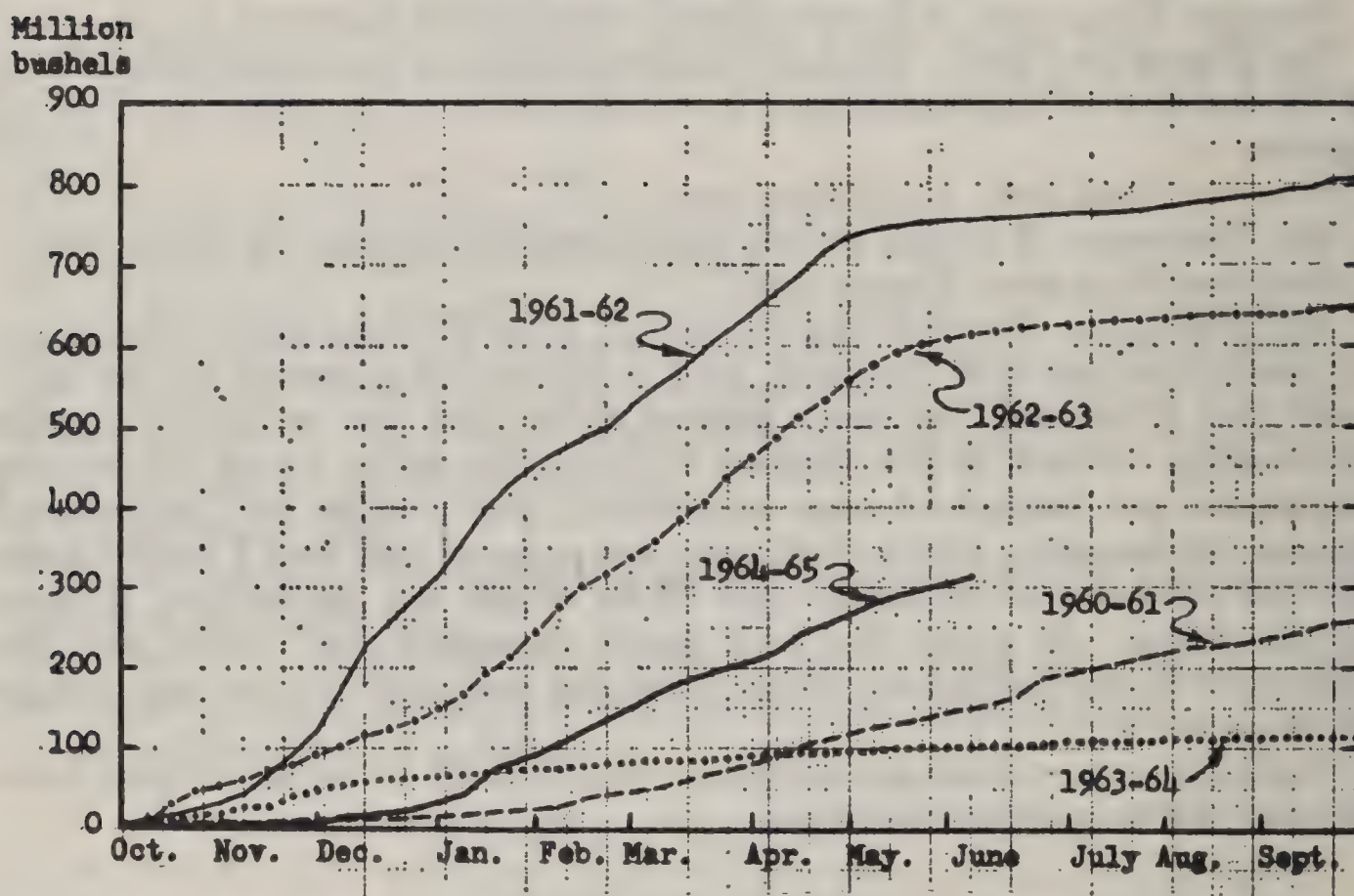
The use of CCC stocks to depress market prices is an essential part of the present feed grain program for two reasons. First, it forces a substantial “voluntary” participation. So-called voluntary. Second, it prevents any substantial rise in market prices which would make it more difficult for supporters of the program to defend the large payments made to cooperators.

CCC sales were a dominant factor in the market in the 1961 and 1962 marketing years, as is indicated by the chart below. Such sales were drastically curtailed last year, probably as a result of low cattle prices although it is not unusual for the CCC to restrict its sales in an election year. The dramatic increase in livestock prices this year is at least in part a reflection of reduced CCC feed grain sales. But, Government sales are again on the increase. Sales from the beginning of October through June 4 of this year were three times as high as in the same period a year ago.

This is a line chart, and you see that with the exception of 1963-64, which was the election year, the weekly sales, accumulated sales, have been quite substantial. In fact the Secretary of Agriculture has used this authority to force prices of feed grains down in his efforts to force compliance and to make the program look better.

(The chart referred to follows:)

Cumulative Weekly CCC Sales of Corn for Domestic Use,
Marketing Years, 1960-64



The CHAIRMAN. Do your figures indicate the amount that was sold so as to conform with the law which provides for payment-in-kind sales?

Mr. SHUMAN. I do not believe we have separated these out. These are total sales under the domestic market. These are total CCC sales.

The CHAIRMAN. According to information just handed to me, the Commodity Credit Corporation still have on hand \$2,123,395,420.77 worth of PIK certificates as appears in financial condition of all of these operations. I would ask that the table be put in the record at this point.

Mr. SHUMAN. Very good.

(The information referred to follows:)

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, COMMODITY CREDIT CORPORATION: ANALYSIS OF OBLIGATION TO REDEEM PAYMENT-IN-KIND CERTIFICATES, AS OF APRIL 30, 1965

D. Obligation to redeem payment-in-kind certificates		
Item		Amount
Certificates pooled:		
Cotton domestic payment certificates-----	\$186, 857, 240. 82	
Feed grain diversion and price-support payment certificates-----	2, 123, 395, 420. 77	
		\$2, 310, 252, 661. 59
Certificates not pooled:		
Cotton domestic payment certificates-----	170, 172. 72	
Feed grain diversion and price-support payment certificates-----	174, 794. 96	
Dairy products export payment certificates-----	17, 329, 788. 58	
Export commodity certificates-----	35, 366, 516. 60	
Grain export payment certificates--	42, 519, 251. 94	
Livestock feed program dealers certificates-----	6, 078, 507. 31	
		101, 639, 032. 11
Total-----		2, 411, 891, 693. 70

Mr. SHUMAN. A policy of using Government stocks to prevent natural market price increases penalizes both cooperators and non-cooperators in poor crop years when producers need higher prices to make up for reduced output. We saw a real demonstration of this last year.

Were it not for stocks accumulated under past programs and CCC's policy of selling these stocks at loan rates, current corn prices would be considerably higher. In the 1947 marketing year, when the corn crop was 808 million bushels less than the previous year, corn prices gained an average of 63 cents per bushels. The 1964 crop was 543 million bushels smaller than the 1963 crop, but corn prices in the first 8 months of this marketing year averaged only 6 cents above year earlier levels.

Of course, Secretary Freeman has admitted that he is using this sales authority to depress prices, and over on page 18 a little later you will see the quotation where he makes this admission.

THE CHAIRMAN. You mean you quote him?

MR. SHUMAN. Yes, on page 18. If you want to look there, you will see what he said.

THE CHAIRMAN. To what extent was any of this feed grain sold for a price below the support price? Was it not all sold above the support price? That is my understanding.

MR. SHUMAN. I think it was sold at about the support price, but the authority lets him start selling to hold the price down. We think that in order to let the market price have some function, that the limitation should be higher. I mean he should not be permitted to sell it at such a low level. So that what he is doing is using it to hold prices down. In a year like this last year, which was a drought year, we would have had normally probably a 30- to 40-percent increase in the price of corn. But we did not get but a 6-percent increase. Our contention is that this authority to sell back at about the loan rate is bad for market prices.

The CHAIRMAN. Plus.

Mr. SHUMAN. Plus carrying charges gives him price-depressing power which he has used to hold the price down. It has excessively stimulated the livestock production and has penalized the producers of feed grains in years when they have a short crop in a way in which they should not have been penalized, and he has used surplus accumulated from previous years.

He can sell it at the price support on feed grain. His authority does let him sell at price-support level.

The CHAIRMAN. In 1961 and 1962 I am informed he was permitted to sell at market price.

Mr. SHUMAN. Yes, that is right.

The CHAIRMAN. Your idea is to increase that from 105 to what?

Mr. SHUMAN. 125 in the case of feed grain.

The CHAIRMAN. Suppose the price does not rise and you cannot sell it. What will happen to it? Would the Government not be forced to take over more of these feed grains if the farmers could not sell it, if the resale price is raised?

Mr. SHUMAN. Under our recommendation we would expect that the market price would be operative. There would be very little accumulation in the surplus stockpile. There are many ways to get rid of the accumulated surplus. We are giving it away now.

The CHAIRMAN. Are you telling us that if today we were able to lock the barn insofar as all the corn and feed grains we have on hand, that the market would be kept up to the point where it would be much higher than the present support price?

Mr. SHUMAN. I do not think there is any question about it but what it would average considerably higher than the present support price, and I think that the——

FEED GRAINS

The CHAIRMAN. It might be cheaper for us to burn up all the corn we have got on hand now and let the market take care of itself.

Mr. SHUMAN. I think it would be. I think it would but there are better ways if we develop a more workable program.

The CHAIRMAN. Without support prices, without anything?

Mr. SHUMAN. Well, we suggest a support price of 90 percent of the 3-year market average as a protection, but not as a device to establish the price.

The CHAIRMAN. But 90 percent of the last 3 years would be probably \$1 what, \$1.20 a bushel?

Mr. SHUMAN. No; it would be nearer \$1.

The CHAIRMAN. A dollar what?

Mr. SHUMAN. About 98 cents.

The CHAIRMAN. It has been argued here that at 80 cents a bushel the Government would take in more corn than under the present setup. Do you agree to that?

Mr. SHUMAN. No, sir; I certainly do not. I think we have had a good demonstration in the third most important field crop in the United States, soybeans, as to what would happen if we had price supports as we suggest at a percentage of the market price with no control program. There is no reason in the world why corn, feed grain, and to a lesser extent wheat, would not respond in a similar fashion.

The soybean market has continued to expand. We are able to sell it abroad. Very little of the crop ever goes into Government storage, and the price has moved up. There is absolutely no reason why feed grain would not operate the same way.

The CHAIRMAN. The soybean oils and other products from soybeans, there is a bigger demand abroad, is there not, than grain, I mean in proportion to production?

Mr. SHUMAN. Yes. One of the reasons there has been a better demand is because this crop has been on the market, and it has not been subject to the storage operations of the Federal Government and the dumping that they have exercised in both the domestic and foreign markets, and so there is incentive for the folks who are handling soybeans to look for markets and they have built markets.

In the case of wheat, feed grain, and cotton there is very little incentive when the Government is holding the sack, just turn the crop to the Government.

I think we would have had a similar response. There is a potential demand for feed grains all over the world. I do not think there is any material difference between the feed grain situation and the soybean situation. If we had had price supports and control programs on soybeans we would have had millions of bushels of soybeans in storage.

The CHAIRMAN. Well, you do have a price support of \$2.25 on soybeans.

Mr. SHUMAN. Yes, I know. If we had had the same kind of program—

The CHAIRMAN. They are selling now for what, \$2.65?

Mr. SHUMAN. Yes.

The CHAIRMAN. Or \$2.80?

Mr. SHUMAN. What we have done here is keep the price support below the market price, and if we had done the same thing with feed grains, we would, in my judgment, have had about the same experience.

The CHAIRMAN. I cannot quite follow you because you admit that corn is now selling above the support price, which you consider fair—I mean the price of that corn is fair, is it?

Mr. SHUMAN. No, not after a short crop year like last year, no.

The CHAIRMAN. Suppose you had corn to sell for more than what it now is. Do you think your chances of selling it abroad would be enhanced?

Mr. SHUMAN. I think if we had had a relatively free market that could have moved up and down, not only we would have a better average price and a better price today for feed grain and corn, but we would be in a position to sell to better advantage, yes, because we would be out competing on the market, and the people who have the corn would be trying to sell it. The way it is now, we turn it over to the Government, and the Government is a very poor salesman.

I do not believe there is any real material difference in what could have happened with feed grain and what did happen with soybeans with different price support control policies. I will admit there is some difference with wheat.

The CHAIRMAN. Proceed.

Mr. SHUMAN. (7) The present feed grain program was not designed as a permanent program.

The sponsors recognized that the program would be costly; however, they apparently hoped that it would pave the way for the adoption of a less costly compulsory control program.

The idea of shifting to a compulsory program was abandoned by Congress in the face of strong producer opposition. As a result we now have a costly, ineffective program that was never expected to permanently solve the feed grain problem.

(8) The feed grain program is not solving the feed grain problem.

The program is costly and ineffective because it seeks to control production by reducing acreage—which is only one factor of production. Year-to-year diversion programs are the most costly and least effective methods of reducing acreage. Such programs do not encourage needed adjustments in land use. On the contrary, they actually increase capacity to produce on acreage temporarily withheld.

OUR APPRAISAL OF THE CURRENT WHEAT PROGRAM

The current wheat certificate program is a stopgap measure, which was put into effect for a 2-year period after a majority of the producers voting in a 1963 referendum had rejected a similar program.

Here are some of the facts that should be considered in evaluating this program:

(1) The certificate plan is a bread tax.

Under the wheat certificate plan every person processing wheat into food products is forced to buy marketing certificates at a fixed face value. The cost of these certificates—70 cents per bushel for the 1964 marketing year and 75 cents for the 1965 marketing year—is over and above the price paid by the processor to obtain wheat in the marketplace.

The cost of the certificates does not change with the market price of wheat. Thus, the certificates are clearly a device used by the Government to collect funds from the processors of wheat food products. Such a device has all of the earmarks of a processing tax.

Since flour and bread are the major consumer items produced from wheat, the cost of acquiring certificates can appropriately be considered a flour and bread tax. Clearly such a tax places the heaviest burden on low-income families who spend much more of their income for flour, and more of their income for bread than higher income families.

Proponents say that the cost of certificates is not a bread tax because—in their opinion—it is not sufficient to justify an increase in the price of bread. Actually, the price of bread has gone up and even USDA officials have said it will go up more if the certificate value is increased as proposed.

The real point, however, is that a Government exaction from processors—based on the volume of products processed—is clearly a tax on processing, regardless of whether the cost of the product would be higher or lower under a different program. In the present case, it is a tax imposed on domestic consumers in order to facilitate wheat sales in the export and domestic feed markets at prices far below those applicable to wheat used in domestic food. Pending proposals to eliminate the export certificates and increase the price of domestic certificates would mean a higher, more obvious bread tax—a greater discrimination between our own consumers and foreign buyers.

(2) The certificate plan allocates the premium market for milling wheat to cooperating producers without regard to quality or actual use. The arbitrary nature of the percentage allocations to the various certificate classifications is illustrated by the following data on the average utilization of wheat for the 5 years 1959-63 :
(The data referred to follow :)

Utilization as—	Million bushels	Percent of utilization	Corresponding allocation under 1965 program
Domestic food.....	505.1	39.6	45 percent domestic certificate.
Feed, seed, and industrial.....	90.3	7.1	20 percent noncertificate.
Exports.....	679.2	53.3	35 percent export certificate.
Total.....	1,274.6	100.0	

Mr. SHUMAN. The important thing here is that the middle column shows the percent of utilization, about 40 percent for domestic food, 7 percent for feed, and 53 percent for exports. Yet under the wheat certificate plan the percentages assigned are entirely different, 45 percent for domestic, 20 for noncertificate, 35 for export.

The individual producer receives domestic certificates for only 45 percent of his normal yield, although he may produce high-quality wheat that goes entirely into domestic food. At the other extreme, a qualifying producer receives domestic certificates for 45 percent of his normal yield even though his entire output is exported or is a low-quality wheat used exclusively for livestock and poultry feed.

As shown below, the average domestic utilization in the 5 years 1959-63 varied from a low of 23.9 percent of the total use in the case of White wheat, to a high of 76.2 percent of total use in the case of Hard Red Spring wheat.

This table brings this out more clearly as to discrimination between the kinds of wheat. Here I would like particularly to call attention to discrimination against the producers of Hard Red Spring wheat.

(The table referred to follows.)

Utilization of wheat, by classes
[Average for 5 years, 1959-63]

Class	Domestic uses	Export	Total use	Percentage used for—	
				Domestic uses	Export
	Million bushels	Million bushels	Million bushels		
Hard Red Winter.....	261.0	442.6	703.6	37.1	62.9
Hard Red Spring.....	135.6	42.4	178.0	76.2	23.8
Soft Red Winter.....	134.0	54.0	188.0	71.3	28.7
Durum.....	24.2	11.2	35.4	68.4	31.6
White.....	40.6	129.0	169.6	23.9	76.1
All wheat.....	595.4	679.2	1,274.6	46.7	53.3

Mr. SHUMAN. The second line in the table, 76 percent of the Hard Red Spring wheat goes for domestic use, and yet they only get 45 percent of domestic certificates. The producers only get 45 percent of that credited to them in the certificate plan, whereas White wheat, down at the bottom, the next to the bottom line, only 24 percent

roughly, 23.9 percent goes into domestic use, and they still get 45 percent of their normal production in domestic certificates.

The CHAIRMAN. Mr. Shuman, in connection with what you are talking about now, why is it that from the 1947-49 average to 1963, when the price fluctuation in wheat was very little—as a matter of fact, wheat sold for an average of \$2.14 per bushel during 1947-49 and today the price is about \$2.09 per bushel and yet the record shows that the price of bread increased from 13.5 cents to now 21.6 cents.

Mr. SHUMAN. There are many factors——

The CHAIRMAN. How do you figure that out?

Mr. SHUMAN. There are many factors that go into the price of bread. We do not deny that at all. During this period of time we had great increase in the cost of labor and transportation and many other things. These are all reflected in the price of bread. The fact that there have been other cost increases and other increases in the price of bread does not in any way lessen the validity of the argument that the wheat certificate plan is a bread tax. It is added to whatever those cost increases would have been.

The CHAIRMAN. I just cannot follow you, because as I said, the fluctuations in the price of wheat and the cost of bread, there is no parallel to it. The cost of bread has increased even though the price of wheat was slightly down.

Mr. SHUMAN. This simply means that the labor factor was of greater importance and overshadowed the decline in that particular period in the price of wheat. Now you come along—even if you had had an increase, if you had had a certificate imposed at that time, the price of bread would have gone up more than it would without. That is all that we are saying. In effect it is a tax that has to be paid by the consumer, and it has been paid by the consumer, and the administration today is admitting that it is so. It is saying it will increase the price of bread further under their proposal for extending current program.

The CHAIRMAN. It is not due though to the increase in the price of the raw material.

Mr. SHUMAN. Part of it is, not all of it. No, I would not say that the cost of the raw material is the factor that has caused all of the bread price increases. It certainly has not. But at the present time in the last year I do not think there is any question but what the certificate was responsible for at least a 1-cent-per-pound increase in the cost of bread, and according to the Department it will increase more under their new proposal.

The CHAIRMAN. How do you figure that? Is it because the producers of that bread saw an out and took the position that because the cost of wheat went up, we will sell the bread higher?

Mr. SHUMAN. I think their costs were up. There is no question but what their costs were up by the amount of the certificate.

The CHAIRMAN. But not to the extent of increasing it by 1 cent.

Mr. SHUMAN. No, I do not think so either.

The CHAIRMAN. Of course not.

Mr. SHUMAN. But it is natural that whenever they make an increase, they are going to make it in round figures, and they add other costs, margins to it.

The CHAIRMAN. Well, that just shows you the extent to which the farmers are at the mercy of the distributors, the manufacturers.

Mr. SHUMAN. The percentage of the price or the cost of the loaf of bread to the retail customer, of course the percentage that is attributed to wheat is not large. But you cannot increase the price of wheat by 70 cents a bushel certificate without getting some increase in the price of the finished product. And when you almost double it again next year, to \$1.25 as is proposed in the administration bill, there will be another increase in the price of bread.

The CHAIRMAN. When you say double, you mean the price of wheat?

Mr. SHUMAN. Not quite double, but the proposal is that the certificate be almost double to \$1.25 I believe.

The CHAIRMAN. What would that make wheat sell for? If he can buy it at \$1.30 and the certificate is worth 70 cents, the wheat will still be——

Mr. SHUMAN. The certificate is \$1.25, and the wheat at \$1.30 would be about \$2.55, is it not?

The CHAIRMAN. You mean as to that which is consumed domestically.

Mr. SHUMAN. Yes.

The CHAIRMAN. If he figures the price——

Mr. SHUMAN. At \$1.30.

The CHAIRMAN. At 100 percent of parity.

Mr. SHUMAN. Yes, that is right.

The CHAIRMAN. That is what you are assuming.

Mr. SHUMAN. That is correct. He would have authority to do it.

The CHAIRMAN. I understand, but the formula is still 65 to 100 percent of parity.

Mr. SHUMAN. Yes. He has authority to vary that.

While the above figures include feed, seed, and industrial use, they are nonetheless indicative of the fact that domestic food use represents a much higher percentage of total utilization for some classes of wheat than others. The variation in utilization undoubtedly is much greater for individual producers.

The uniform allocation of domestic and export certificates to all producers penalizes producers of the classes that have a higher-than-average domestic food use and those who are doing the best job of meeting the demands of the domestic industry for quality milling wheat within each of the various classes.

The arbitrary allocation of these percentages penalizes the fellow who produces the kind of wheat which is largely going into domestic consumption. It gives a premium to the fellow that is producing the feed-type wheat by the arbitrary allocation. That is the thing we pointed out in those two previous tables.

Senator HOLLAND. I thoroughly agree with that, and I do not see how that can be escaped at all. You use for the common denominator the technology, the wheat-producing capacity the best with the worst. I do not see any justification for that and never have in existing law.

Mr. SHUMAN. (3) The certificate plan does not give producers a choice between supported prices and the free market.

The price buyers will pay for wheat under the certificate plan is not a free market price nor does it reflect the full value of the wheat. It is a Government-manipulated price which depresses the market price by (1) the requirement that processors and exporters buy certificate at costs over and above the prices paid in the market, and

(2) the policy of dumping CCC stocks on the domestic market at 105 percent of a low loan rate, plus carrying charges.

During the heavy marketing season last summer the farm price of wheat was depressed below the world market level as evidenced by the fact that export subsidies were less than the 25-cent-per-bushel cost of export certificates for a considerable period of time.

I should say this is the first time that I know of in the history of the United States where the price of wheat on our market was below the world price, and it was actually the determination and as a result of the action of the Department of Agriculture, Commodity Credit Corporation, that makes you wonder which side our Department of Agriculture is on. Whether on the farmers' side or whose, when they push the price, the domestic price of wheat, below the world price. This could never happen without dumping. It is the best proof that there was dumping to depress prices.

The CHAIRMAN. Mr. Shuman, is it not a fact that under this certificate system that you have more or less a free market in the sale of wheat?

Mr. SHUMAN. No.

The CHAIRMAN. In this country?

Mr. SHUMAN. No, absolutely not. This table demonstrates how much below the free market it was.

(The table referred to follows:)

Export subsidies by class of wheat and port of shipment

[Cents per bushel]

Port and class	Cost of export certificate	Export subsidy	Difference— Amount farm price was below world level
East coast:			
Hard Red Spring.....	25	8	17
Hard Red Winter.....	25	10	15
Gulf coast: Hard Red Winter.....	25	10	15
West coast: Other classes.....	25	4	21

The CHAIRMAN. But why not? What is to prevent it?

Mr. SHUMAN. The dumping of wheat by CCC.

The CHAIRMAN. You mean \$1.05 plus carrying charges?

Mr. SHUMAN. Yes.

The CHAIRMAN. But that would increase the price of wheat.

Mr. SHUMAN. But the support price is quite low now, you see. I mean the authority to sell—well, here is the evidence. Here is the price right here at the bottom of page 12, actually what happened. Hard Red Spring wheat was 17 cents below the world price; Hard Red Winter, 15 cents; Hard Red Winter at gulf coast, 15 cents; and west coast ports, 21 cents below the world price, and something had to bring it down.

The CHAIRMAN. You mean to say that the references you are now making show that this wheat was sold in the American market at the figures you indicate—17, 15, 15, and 21—the different kinds of wheat here in America? I cannot quite follow you.

Mr. SHUMAN. Jack points out that the export tax is the cause of the difference. In other words, with this export tax of 0.25 that we have had, it is possible for the Secretary to push the price—domestic price down by dumping CCC wheat—and he did do it—below the world price.

The CHAIRMAN. What export tax are you talking about now?

Mr. SHUMAN. You have under the wheat certificate plan—you have three prices. You have the depressed market price, which the noncooperator and the cooperator—the part that he sells, that is one price. That is the supposedly free market price, but it is the depressed price because of the Government sales.

The CHAIRMAN. And the inability of the producer to obtain certificates.

Mr. SHUMAN. He cannot get certificates on all of his production even if he signs up, so he has some excess production. Then you have the certificate price of—

The CHAIRMAN. Do you mean he cannot get what certificate?

Mr. SHUMAN. The certificates issued on normal yield. Most producers normal yield is below what his actual is. So he has a certain part of his production—

The CHAIRMAN. That is if he produces above what he normally produces.

Mr. SHUMAN. Above what they say is normal.

The CHAIRMAN. What does that amount to about?

Mr. SHUMAN. It could run as high as—oh, it would run from zero, of course, to 20 or 30 percent. It would depend upon his year and how much fertilizer he used and other things. The second price, of course, is the one that the farmer gets his market price plus the 70-cent certificate on his normal yield. The third price is the one which has been the export price—and this involves the 0.25 export certificate that exporters must buy.

The CHAIRMAN. In that second category would you say that the wheat would be sold to the millers at a higher rate than would the wheat in the first class you mentioned; that is, to the non—

Mr. SHUMAN. The miller pays in two ways. He pays on the market at the time he takes delivery—

The CHAIRMAN. He buys it for whatever it brings.

Mr. SHUMAN. Yes; whatever the market brings.

The CHAIRMAN. Exactly.

Mr. SHUMAN. Then he pays 70 cents for domestic certificate.

The CHAIRMAN. That is right. If he can buy the wheat from non-compliers, of course, he has got to get his certificate for that. He could buy that wheat probably for \$1.25, and then the certificate will cost him 75 cents.

Mr. SHUMAN. 75 cents.

The CHAIRMAN. Which would make a total of \$2.

Mr. SHUMAN. Yes.

The CHAIRMAN. On the other hand he might be able to buy that wheat for \$1.10 and pay the 75 cents for the certificate, and the wheat will cost him \$1.85.

Mr. SHUMAN. The only way he could buy at \$1.10 would be for the price to have gone down to that, because he will not buy from the non-complier any cheaper than he will from the complier.

The CHAIRMAN. I understand that, but what I was trying to illustrate to you was that there is some kind of a free market on the wheat that is sold domestically.

CCC RESALE PRICE

Mr. SHUMAN. It is a very limited free market because the Secretary has such huge supplies that he can keep the price down and he has done so. He has kept the price right down with very little variation.

The CHAIRMAN. Do you know what the average difference is between let's say—assuming that we would sell at the market, wheat would be \$1.25, and if you add 5 percent of that and the carrying charge, interest, and so forth, how much differential would that make between the market price of wheat and what it would have to be paid for it obtained from the CCC? What is the average difference in a bushel, do you know?

Mr. SHUMAN. No; I don't know what that would be.

The CHAIRMAN. It can't be very much.

Mr. SHUMAN. I am not quite sure that I understand the question.

The CHAIRMAN. What I am trying to determine is this. You say that the Secretary of Agriculture dumps, let's put it that way—that is what you mean?

Mr. SHUMAN. Yes.

The CHAIRMAN. Dumps the wheat from the CCC if he wants to depress the price.

Mr. SHUMAN. Yes.

The CHAIRMAN. Well, to what extent per bushel can that price be depressed? What is the average, in other words, per bushel?

Mr. SHUMAN. His limitation is 105 percent.

The CHAIRMAN. Plus carrying charges?

Mr. SHUMAN. Plus carrying charges.

The CHAIRMAN. And what does that amount to per bushel?

Mr. SHUMAN. It amounts to that being a ceiling beyond which the price of wheat would probably never rise.

The CHAIRMAN. In other words, it would be only if the wheat was selling above the 105 plus carrying charges that the price would be depressed. I mean if he saw fit to dump any of this wheat on the market?

Mr. SHUMAN. Well, yes, but you see the loan level established under this is low.

The CHAIRMAN. Exactly.

Mr. SHUMAN. But the level established under this legislation is quite low, the level that the Secretary is to hold.

The CHAIRMAN. Well, 105 plus carrying charges has been in the law for a long time.

Mr. SHUMAN. It is 105 percent of the support price, and the support price has been reduced.

The CHAIRMAN. Well, that makes it work.

Mr. SHUMAN. It is not 105 percent of parity. It is 105 percent of the loan price, and that was brought down under this legislation. In effect what the Secretary has done is put a ceiling on the price so that we have no opportunity to get a higher price, and at times during the

last year this has been below the world price, and we know we would have got a better price if we could have sold on the world market.

The CHAIRMAN. I guess you could probably advance the same argument as to corn and other feed grains.

Mr. SHUMAN. Yes. It is esesntially the same thing.

The CHAIRMAN. The same thing.

Mr. SHUMAN. By using the supplies he has held the market strictly down to practically the minimum that he could hold it, when we know that we could have gotten better prices. In wheat the world price would have justified as much as 15 to 17 cents a bushel more, and in corn in a short crop year we would have had a higher price. This is the whole argument we are making.

The CHAIRMAN. I don't want to labor the question further, but the wheat would have to be sold by him at a higher price than the market price, if you add 5 percent plus carrying charges plus interest plus everything else.

Mr. SHUMAN. Not necessarily.

The CHAIRMAN. And now to make it higher than that, why it would mean that the Government would be stuck with wheat and there would be no way for the Government to sell it. The price of the wheat might go wild, and then the Government would have on hand an amount of wheat that could be used in order to keep the price at a stable level.

Mr. SHUMAN. This is the contention now. That is the contention on that side. Our contention is this: that in effect——

The CHAIRMAN. I am taking the negative.

Mr. SHUMAN. I understand.

The CHAIRMAN. Just to bring this out.

Mr. SHUMAN. Let's see if we can take another approach. In effect the present legislation on feed grain and wheat gives the Secretary the authority to maintain, with a very small margin of fluctuation——

The CHAIRMAN. How much?

Mr. SHUMAN. Oh, practically none in the case of wheat. Actually, with the price——

The CHAIRMAN. How can you say that?

Mr. SHUMAN. Because the price support has been dropped so low that there is no possibility——

The CHAIRMAN. You mean 105, talking about corn?

Mr. SHUMAN. The price support is so low on wheat that for all practical purposes the Secretary can maintain the price with very little chance for the market to have any effect. On corn there is very little leeway, but in a short year he has in effect set the price. What we are saying, all we are saying is that this is not right.

If this insures all or almost all of the crop of going into Government hands because there is no chance for the farmer to make a profit by holding or distributing in the market, we say that the resale authority of the Secretary, instead of being here at 105 support price, should be at 125.

Then the price would have a chance to go up and down, and instead of all this grain being funneled into Government storage as it is now, the farmer would tend to sell it on the market. He would see chances to make a little increase in price, and so he would sell it on the market.

The CHAIRMAN. But in the meantime anything the Government would have on hand would have to be held back.

Mr. SHUMAN. Yes.

Senator HOLLAND. May I ask a question, Mr. Chairman?

The CHAIRMAN. Surely.

Senator HOLLAND. Isn't your argument mostly addressed to the fact that your crops were produced in these 2 years?

Mr. SHUMAN. It is addressed to that and also to the fact that when you establish an arbitrary price, you stimulate greater production than if the price is not known. Even at \$1 a bushel for corn, you will get more production stimulated, more fertilizer put on than you will if the price of corn averaged \$1.15 but the farmer didn't know it ahead of time. He knows before he plants though how much the price is going to be, so he goes and orders his fertilizer.

Senator HOLLAND. With the argument which you have made and which I have followed rather closely—it seems to me that it is accurate—would that apply in the event that the production in these last 2 years had been greater production rather than less in the preceding years?

Mr. SHUMAN. I don't think there is any question but what that the wheat and the feed grain programs as they exist today even stimulate increased production, and I think more so than the market, if it were allowed to move up and down somewhat.

The CHAIRMAN. I think that has been your stand.

Mr. SHUMAN. That is right.

The CHAIRMAN. For quite some time as I understand it.

Mr. SHUMAN. That is right.

The CHAIRMAN. And as an alternative as I recall instead of making the price support a percentage of parity, yours is 90 percent of the last 3 years' average.

Mr. SHUMAN. That is right.

The CHAIRMAN. And every year it goes down.

Mr. SHUMAN. No, it wouldn't have gone down on corn this year. It would have gone up.

The CHAIRMAN. No.

Mr. SHUMAN. Because the price of corn would have gone up. We would have had at least a 35- to 40-cent better price for corn this year.

The CHAIRMAN. With all we had on hand, Mr. Shuman, with all the corn we had on hand?

Mr. SHUMAN. We wouldn't let the Secretary sell this back on the market until it got to be 125 percent.

The CHAIRMAN. I know that. Of course I can see that. If you make it impossible almost for the Government to dispose of its corn and keep on letting the Government pay the expenses of storage and interest and so forth—

Mr. SHUMAN. I think we would get rid of the surplus just as fast under our proposal as we are now. But we are not doing very well getting rid of it at the present time. CCC still has about \$7 billion under their control.

Senator AIKEN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Surely.

Senator AIKEN. You would have received 40 cents a bushel more for your corn. Does that mean that we folks in the Northeastern United States would have paid 40 cents a bushel more for our chicken feed?

Mr. SHUMAN. I think you would for the period, and I think it would

have been good because it would have discouraged some of the folks in other parts of the United States who would have reduced the production of chickens. The market system is better for livestock producers even if they have to pay a higher price once in a while. When we had this tremendous——

Senator AIKEN. You tell them that; don't expect me to make them believe it.

Mr. SHUMAN. When we had this tremendous dumping of feed grain on the market in the 3 years, the first 3 years of the feed grain program, this increased livestock production tremendously. Then we paid for it in low prices. I think it is healthy for the livestock industry to have a price of feed that varies rather than one that is the same.

Senator AIKEN. I thought the importations from Australia knocked down the price of livestock.

Mr. SHUMAN. The greater number of cattle we fed was caused in part by dumping of CCC stocks of feed grains.

Senator AIKEN. We sell some airplanes out of it anyway.

Mr. SHUMAN. I think that the imports were an irritant, but I don't think they were a major cause.

The CHAIRMAN. Here lately, as I pointed out yesterday, during 1963-64 the price of grain, feed grain, was about the same. Yet the price of cattle went up 4 or 5 cents a hundred, and the same thing for hogs. It went up, I don't recall the exact figures now. Even poultry went up. How do you account for that?

Mr. SHUMAN. Well, I think that the increase in the price of cattle, there is no question was caused by a cutback in feeding after a disastrous year last year.

The CHAIRMAN. Hogs went up 6 cents and cattle went up—hogs went from 14.30 to 19.70. Cattle went up from 17.60 to 20.60, and yet the price of feed is about the same.

Senator AIKEN. The price of shirts went up and the price of cotton went up about 2½ cents a yard.

The CHAIRMAN. That is why I don't follow.

Mr. SHUMAN. We have opportunity in the livestock business to make adjustments and encouragement of price changes, and the price was low, and naturally when it goes down as much as it did in the case of cattle and hogs for a 2-year period, you are going to have a rather sizable adjustment the other way, so they cut back rather severely.

On page 8 that chart shows another reason why there is a response. It shows that when the Secretary wasn't dumping the feed grain on the market in the year 1963-64, that it gave the livestock folks a chance to make the adjustment. The depression of the price——

The CHAIRMAN. But the price of the grain didn't fluctuate so as to make the price of meat go up and down.

Mr. SHUMAN. Yes; the price of——

The CHAIRMAN. I mean go up.

Mr. SHUMAN. The feed grain price did go up in 1963-64 when they held off the sales. It went up. We had a pretty good price, which caused them to cut back more than they normally would have in feeding.

The CHAIRMAN. But the fact remains that the price of feed for 1963-64 was about the same in spite of the fact there was a great increase, a fairly great increase in the price of hogs—even poultry and cattle.

Mr. SHUMAN. I don't know that we have got the table here on the price. We have it somewhere probably. But 1963-64 when the Secretary wasn't dumping feed grains, we did have a fairly good response in the increased price of feed grains, particularly in the Midwest, because I know we sold a lot of corn at about 15 cents a bushel more last year. So there is some effect on it. Shall I go ahead?

The CHAIRMAN. Surely.

Senator HOLLAND. I want to ask a question before we leave this chart at the bottom of page 12. As I read this chart, and from what you say about it, you are indicating that in the case of the wheat that was exported, that in each class of wheat listed there, that the price to the farmer, because of the payment that he had to make for the cost of his export certificate, the difference between that and the export subsidy, the price that he got was well below the world price.

Mr. SHUMAN. Yes.

Senator HOLLAND. In each case.

Mr. SHUMAN. Yes.

Senator HOLLAND. Seventeen cents for Hard Red Spring and so on down through 15 and 15 and 21 to the other classes from the west coast.

Mr. SHUMAN. Yes.

Senator HOLLAND. In the case of the production of commodities, much of which has to move in export, as is the case with reference to wheat, do you think that is a sound situation for the wheat industry, for the producer?

Mr. SHUMAN. No, sir; it certainly is not, and during that period of time when this was most apparent, we had a tremendous lot of dissatisfaction on the part of wheat farmers when they found this going on.

The wheat farmers couldn't understand it at first, and when they commenced to understand it, it was the Department of Agriculture and the Secretary of Agriculture's policies that resulted in their being paid a lower price for their wheat in Kansas and Nebraska than the export price would have resulted in. It was an obvious case of injustice.

Senator HOLLAND. Was it the policy of the Secretary of Agriculture entirely, or was it the result of the existing law and some policy?

Mr. SHUMAN. I think that it is both. I think that the existing law, of course that was the authority under which he operates, and yet he had some leeway, because, after a certain amount of heat, he changed the policy. He made adjustments which corrected it.

Senator HOLLAND. The fact was that with the short production the market price for all the export wheat was decidedly under the world price.

Mr. SHUMAN. Yes; that is right.

Senator HOLLAND. Whereas with natural conditions and with short production, the world price ought to have been an attractive price to which the farmer could turn for the sale of much of his production.

Mr. SHUMAN. At least he ought to have had access to it if we weren't prepared to support it. Actually, the wheat crop last year was not as short as the feed grain crop, but it was not a huge crop.

Senator HOLLAND. I personally think that that chart is very intriguing. I am going to ask you again, is this chart built on figures supplied to you by the USDA?

Mr. SHUMAN. Yes; that is right.

Senator HOLLAND. In other words, the USDA admits that the price of export grain to the producer was this much under the world market?

Mr. SHUMAN. I don't know that they admit it in that many words, but this is the result of the evidence. The evidence is clear.

Senator HOLLAND. Proceed.

WHEAT

Mr. SHUMAN. In the face of Government-depressed market prices, producers who are dependent on wheat for a livelihood are virtually forced to cooperate; yet the program is called "voluntary."

Under the 1964 program the noncooperator was further penalized by a loss of wheat history. This particular penalty has been removed, but the power of the CCC to depress market prices has been increased by a reduction in the 1965 loan rate.

(4) The use of CCC stocks to depress market prices—a key feature of the certificate plan—imperils the market system.

In addition to holding down market prices thereby forcing greater "voluntary" participation, the sale of CCC stocks camouflages the fact that the plan is a bread tax. While the certificate plan is clearly a bread tax regardless of bread prices, the arguments of the proponents to the contrary obviously will carry more weight if it can be shown that flour prices have not increased materially under the plan. Thus, the certificate plan creates tremendous pressure for administrative action to prevent wheat prices from rising more than a few cents above the loan rate.

Senator HOLLAND. When you put the quotation marks around "voluntary" you mean it was involuntary?

Mr. SHUMAN. Yes. This is a shotgun wedding kind of voluntary action in the certificate plan.

Senator HOLLAND. I thought I so understood it.

Mr. SHUMAN. The power of the CCC to depress market prices was increased for the year ahead by reducing the 1965 loan rate.

Government manipulation of prices impairs the market system and can ultimately destroy it. A policy of maintaining a ceiling of wheat prices enables the milling industry to shift the cost of carrying inventories to the Government. This hurts cooperators as well as noncooperators in adverse growing seasons when producers need higher prices to offset reduced output.

Senator HOLLAND. Again, most of what you have said in the last two points has been keyed to the fact that the last 2 years were years of reduced production; is that not correct?

Mr. SHUMAN. This is true. However, this point of the Government program being a pretty cozy arrangement for the handlers is valid whether it is big or little. There is no question but what the exporters, the big handlers, kind of like the Government to take and hold the surpluses.

On the other hand, when the Government manipulates prices to force compliance in a voluntary program or to make the program look better, the cost of carrying the inventories is shifted to the Government. The cost of the tax is shifted to the consumer. And we get a very

rigged thing. It is not a market system at all at any place in the chain.

(5) Indicated returns under the 1965 program are equal to only \$1.52 per bushel on the normal yield of the producer's allotment, plus required diversion. The program provides support on the "normal yield" of cooperating producers on the following basis.

This, Senator, is the point I was making a while ago, that even the cooperator doesn't get it for all. The average gross return per bushel on this example which we have here of a cooperator was \$1.25 a bushel.

Certificate classification :	<i>Support per bushel of normal yield</i>
Domestic (45 percent) -----	\$2. 00
Export (35 percent) -----	1. 55
Noncertificate (20 percent) -----	1. 25
Weighted average, Blend price -----	1. 69

While the indicated blend price on the normal yield of the producer's allotment is \$1.69 per bushel, this is not the full story since cooperators must divert an acreage equal to 11.11 percent of their wheat allotments without compensation in order to receive certificates. Consequently, a per-bushel return of \$1.69 on the normal yield of a 1965 allotment is equal to only \$1.52 per bushel after adjustment for the additional acreage that must be diverted to comply with the program.

For example, assume that a farmer has a 1965 allotment of 100 acres with a normal yield of 25 bushels. Assume further that he plants his full allotment, realizes his normal yield for a total crop of 2,500 bushels. In order to cooperate with the program he must idle an acreage equal to 11.11 percent of his allotment, or 11.11 acres. At normal yields this producer's 100-acre allotment, plus the 11.11 acres that must be diverted, would produce a total crop of 2,778 bushels (25 by 111.11).

He will receive:

\$1.25 (loan rate) on 2,500 bushels, or -----	\$3, 125. 00
\$0.75 (domestic certificate) on 1,125 bushels (45 percent), or -----	843. 75
\$0.30 (export certificate) on 875 bushels (35 percent), or -----	262. 50
<hr/>	
Total gross return from 111.11 acres planted to wheat or diverted -----	4, 231. 25
Average gross return per bushel on 2,778 bushels (normal yield of 111.11 acres) -----	1. 52

Should this yield turn out to be above his normal yield of 25 bushels per acre, as is most likely since the yield trend is upward, the per bushel returns shown in this analysis would be even lower.

This is an example showing the different prices that he would get, and it comes out that instead of getting the prices billed he gets \$1.52—and he must cooperate in order to get this.

Senator HOLLAND. Was the actual yield greater than the normal yield in these 2 years of reduced production?

Mr. SHUMAN. I don't know what the average national normal yield is, but I am certain that it was higher. I know that there are very few individual cases.

STATEMENT OF WARREN COLLINS, ASSISTANT DIRECTOR, COMMODITY DIVISION, AMERICAN FARM BUREAU FEDERATION, CHICAGO, ILL.

Mr. COLLINS. The reference to the reduced year—

Mr. SHUMAN. This example is a wheat example.

Mr. COLLINS. That is right.

Mr. SHUMAN. The normal yield of wheat for most farmers is less than the actual, because wheat yields have been turning up. I don't know the total national average normal yield is that they use.

Senator HOLLAND. Is your point that in many cases, the case of many farmers, that even in a lean year of national production, that their actual yield would be well above their normal yield?

Mr. SHUMAN. This is the point, that even the cooperator doesn't obtain the high price. This is a blend price, and is quite a bit lower than it was under the old program, quite a bit below what it would be if he had it confined to the normal yield.

The CHAIRMAN. You mean before the change in the law?

Mr. SHUMAN. Yes.

The CHAIRMAN. The acreage was 55 million.

Mr. SHUMAN. Yes.

The CHAIRMAN. I notice here that the average yield of wheat for 1964-65 according to the record is 26.2 bushels per acre.

Mr. SHUMAN. Yes; I knew it was close to 27, and I think this normal is usually from 25 down.

(6) Wheat acreage is increasing under the certificate plan.

Cooperators are encouraged to overseed by optional features which permit (1) the storage of excess production under bond and (2) the substitution of wheat for feed grains on farms complying with both programs.

Overseeding is also encouraged by the fact that a producer does not have to make a final decision with regard to the way he will operate under the program at the time he signs up. The winter wheat producer, for example, was free to exercise the various production options or withdraw from the program after he had a chance to see how his crop came through the winter.

Under such a system it is to be expected that many producers will overseed for crop insurance and then bring their farms into compliance just before harvest by eliminating the acres with the poorest yield prospects.

The acreage seeded to winter wheat under the 1965 program is the largest reported for any crop year since 1954. This relatively large acreage reflects excess acreage on farms which have elected to exceed their allotments under optional features of the program as well as overseeding by noncooperators.

These figures, this table, shows how this comes about.

(The table referred to follows:)

The 1965 winter wheat program enrollment, intended diversion and overplanting, and seeded acreage, with comparisons

Acreage seeded_____	45, 117, 000
Allotment _____	42, 666, 300
Intended diversion on cooperating farms_____	5, 540, 000
Allotment minus intended diversion_____	37, 126, 300
Excess of acreage seeded over "allotment minus intended diversion"--	7, 990, 700
Acreage of winter wheat seeded for all purposes :	
Crops of 1959-63 (average) _____	42, 086, 000
Crop of 1963_____	41, 983, 000
Crop of 1964_____	43, 241, 000
Crop of 1965_____	45, 117, 000

Senator HOLLAND. May I ask you a question?

Mr. SHUMAN. Yes.

Senator HOLLAND. A noncooperator, in order to come out ahead on this present law has got to exceed his normal acreage; hasn't he?

Mr. SHUMAN. Yes, he has to. With the price depressed, he is going to have to really put on the steam to raise a lot of bushels per acre, and more acres too, and then the cooperator, with the permission under the law, he can exceed his production. He makes sure that he gets up to his total allotted acreage by overplanting quite often. In fact, it is the usual practice.

An increase in seeded acreage means more wheat production although this fact may at times be obscured by year-to-year variations in the weather. Increased wheat production which is not stored under bond will go on to the market at a price that will encourage greater use of wheat for feed at a time when we are spending millions of dollars to reduce feed grain production.

Extension of the certificate plan would be unwise.

Farm Bureau has a long history of opposition to the multiple price program for wheat. In addition to our serious objection to the "flour and bread tax" principle and its effect on the largest consumers of flour, bread, and wheat products, we have always felt that a "rigged program" like the multiple price plan is unfair to feed grain, livestock, dairy, and poultry producers.

An article by Herb Karner, the Tulsa World farm editor, under date of March 29, 1965, well expressed the basis for this fear:

An old, almost forgotten practice is staging a comeback in Oklahoma farms, that of feeding wheat to livestock.

It's a matter of simple economics. With wheat prices around \$1.30 a bushel because of the certificate wheat plan, it is cheaper to feed than corn or grain sorghum.

Prospects are bright that low-cost wheat may not only bolster cattle feeding operations, but may spark an upsurge in pork production.

That is just an illustration of how the wheat certificate plan is disrupting livestock feeding and interfering with the normal operation of the feed grain market.

The CHAIRMAN. What percentage of the crop is planted by non-cooperators, do you know?

Mr. SHUMAN. No, I don't know.

Mr. COLLINS. It would be about 10 percent.

The CHAIRMAN. Ten percent?

Mr. SHUMAN. I thought it was higher.

The CHAIRMAN. Ten percent.

Mr. SHUMAN. I think it is a little more now.

Mr. COLLINS. Of the acreage.

Mr. SHUMAN. Anyway a large number of the small producers do not sign up in the program—about half of all wheat producers do not participate in the program.

This trend toward increased feeding operations in new areas because of the wheat program, together with the release of CCC stocks of both wheat and feed grains in order to hold the market price down, could very soon cause serious price problems for hog, cattle, dairy, and poultry farmers.

The certificate approach is inconsistent with the objective of reducing barriers to the expansion of international trade in farm products. This involves far more than our trade in commodities covered by certificate programs.

While existing and past price-support programs have made subsidies necessary on exports of a number of farm commodities including wheat and rice, we need to be moving toward a one-price system rather than in the opposite direction.

It is naive to assume that those responsible for the foreign trade policies of other countries do not understand the nature of the certificate approach. Dr. Sicco L. Mansholt, vice president of the EEC Commission, put the matter very clearly in a recent speech in Des Moines, Iowa, when he said:

We say that all the elements of domestic protection have one net result: a difference in domestic price from the world market price * * *.

Any program that maintains a wide differential between the prices charged domestic consumers and those charged foreign buyers is a form of dumping which encourages importing nations, such as the Common Market, to set up barriers against "cheap" American imports.

Extension of the certificate plan would have a destructive effect on our position in the current trade negotiations, an effect that would be intensified by any increase in the differential between export and domestic prices.

Our appraisal of S. 1702 as it relates to wheat, feed grains, and land retirement:

S. 1702 would extend all of the bad features of the present wheat and feed grain programs. It also includes provisions for a small-scale land retirement program and a series of amendments which would greatly expand the authority of the Secretary of Agriculture under the wheat and feed grain programs.

Under the proposed amendments, the Secretary would be given new authority to:

(1) permit the production of soybeans on acres diverted from wheat and feed grains;

(2) Permit soybeans to be substituted for feed grains under feed grain program;

(3) Determine whether barley is to be included in the feed grain program.

He would be given broader discretionary authority than he now has to determine:

(1) The face value of domestic wheat certificates;

- (2) The rate of the diversion payments for wheat and feed grains;
- (3) The distribution of marketing certificates and feed grain payments "among the producers on the farm";
- (4) The yields to be assigned individual farmers under these programs.

With average farm prices only 75 percent of parity for the entire year of 1964, the lowest the parity ration has been since 1934, we cannot understand why Congress would want to extend and expand programs that have contributed to the "cost-price squeeze" in which farmers find themselves.

S. 1702 would continue the authority of the Secretary to use CCC stocks of both wheat and feed grains to hold the market price down.

SOYBEANS AND CCC RESALE PRICE

We are against this authority to put soybeans on diverted acres or to be substituted.

We believe a higher release price should be incorporated in any bill under consideration. This is one area where there is substantial agreement among the general farm organizations, commodity groups, and the grain industry. The market system cannot function adequately as long as the Department of Agriculture carries on the type of dumping operation which has occurred in feed grains and under the multiple price wheat plan.

Secretary Freeman, in his appearance before the House Committee, on April 6, 1965, stated:

The USDA shares the stated objectives of these proposals—that is, to strengthen prices, to make maximum use of market forces in guiding production and of private marketing facilities in handling commodities, and to minimize CCC activities in marketing commodities. However, in addition to its concern with the effective functioning of the free market the USDA has the responsibility to operate the feed grain and wheat programs as effectively as possible for the producer at a minimum cost to the taxpayer. This can't be done if we are required to hold stocks from the market to obtain prices so far above loan levels that we can't get farmers into the program.

That is another way to say that we have got to be able to dump grain on the market in order to force them into the program.

We are greatly concerned at the inclusion in S. 1702 of authority for the Secretary to permit soybeans to be grown on diverted wheat and feed grain acres, and the feed grain base acreage on which the feed grain support payments would be made. In our opinion this would assure a surplus soybean situation and open the way to controls on this "wonder crop." This would be a tragedy. With soybean prices up and with acreage showing a big increase for 1965, it is our judgment that the inclusion of such a provision in a bill for feed grains and wheat would be the height of folly.

We appreciate the administration's belated recognition of the arguments in favor of long-term land retirement; however, the cropland adjustment approach is doomed to fail if it is superimposed on the present feed grain and wheat programs. The large payments available under the present wheat and feed grain programs would discourage participation in a long-term retirement program, and the incentives for higher yields created by these programs would soon offset the effect of any long-range retirement that might be achieved.

CROPLAND ADJUSTMENT

The CHAIRMAN. Could you in a nutshell tell us what is the difference between the program that you have been advocating here for the past 25 years on land retirement, and the one suggested by the administration?

Mr. SHUMAN. Yes, I would be glad to. But actually it hasn't been quite that many years, but time does get away. Our approach is entirely different.

The CHAIRMAN. Would you correct me? How long has the American Farm Bureau been advocating the cropland retirement program?

Mr. SHUMAN. Six years. It was 1959 I guess.

The CHAIRMAN. Five or six years?

Mr. SHUMAN. Yes, sir. Let me say this. Our concept of cropland retirement is that it would be a program, a temporary interim program that would be used in order to get rid of the specific control programs. That is the purpose of our cropland adjustment recommendation. We think in terms of 3, or maybe 5 years, and we would only be for it if it was used as a means of getting rid of the specific acreage controls.

Now the administration recommendation is that land retirement be added to the cotton, the wheat and the feed grain retirement plan. When you do this, you almost automatically insure that the cropland adjustment program will be relatively ineffective. It won't amount to anything because the payments per acre under these specific control programs are higher and must be higher in order to get any retirement.

Under a general cropland retirement program as we propose, the payment per acre would not need to be nearly as great as when you say to a farmer, "You have got to take out so many acres of cotton or so many acres of feed grain."

The CHAIRMAN. You take all lands.

Mr. SHUMAN. We will take out of croplands only.

The CHAIRMAN. Pasture?

Mr. SHUMAN. No, croplands, not permanent pasture; rotation pasture would be part of the cropland acreage. So they are entirely different, and the objective is apparently entirely different, because our objective is a transition program, not a permanent solution.

The CHAIRMAN. And your cropland proposal is on a voluntary basis?

Mr. SHUMAN. That is correct.

The CHAIRMAN. And only those who would reduce their acreage would be entitled? Entitled to price support that you would advocate?

Mr. SHUMAN. Well, our cropland retirement is on a voluntary basis; yes. But we do not require a producer to retire land in order to be eligible for price support.

The CHAIRMAN. You did at one time?

Mr. SHUMAN. Yes; that is true.

The CHAIRMAN. But now you don't?

Mr. SHUMAN. We don't now. I think that our price-support recommendations are such that we don't believe that they are going. We do repeal the acreage allotments under our program. But I don't think that there is any point of keying participation in the cropland program to the price supports, because our price supports

are based on being below the market price, and we don't expect them to be operating much of the time. We don't expect our price supports to be operating as a ceiling over prices.

The CHAIRMAN. And do you still hope that if your program should be put into effect to retire as many as 80 million acres?

Mr. SHUMAN. I think we suggest 60 million acres is perhaps what we would expect to get to over a period of 3 years.

The CHAIRMAN. At an average price of what?

Mr. SHUMAN. Well, the last experience we have with a similar type of retirement, the average cost to the Government was somewhere around \$15 an acre, a little less than that, in the \$12 to \$15 an acre range. It could be a little higher now. It would certainly be much less than if you are asking acreage to be taken out of cotton, corn, or wheat.

Senator HOLLAND. Are you talking about the conservation reserve program?

Mr. SHUMAN. Yes. It is that type of program.

Farm Bureau program for wheat, feed grains, and cropland retirement: Experience with the present temporary wheat certificate plan and the feed grain program clearly indicates the need for sounder, more economical, and less complex approaches to the economic problems of wheat, feed grain, and livestock producers.

Farm Bureau recommendations on feed grains, wheat, and cropland retirement are embodied in S. 891, a bill introduced by Senators Hickenlooper, Anderson, Aiken, Holland, Allott, Bennett, Dirksen, Dominick, Hruska, Jordan (Idaho), Lausche, Miller, Morton, Murphy, Prouty, Scott, Simpson, and Tower. Similar bills are before the House committee.

The following are its principal provisions:

(1) Current wheat and feed grain laws would be repealed or allowed to expire.

Authority for wheat marketing quotas and acreage allotments would be terminated and the multiple-price wheat plan provisions of the 1962 farm act would be repealed. The provisions of the Agricultural Act of 1964 which authorized the 1964 and 1965 wheat programs, and the 1963 Feed Grain Act which applies only to the 1964 and 1965 crops, would be allowed to expire.

These actions are necessary in order to clear the way for a new approach to the wheat and feed grain problem beginning with the 1966 crops. Efforts to control wheat and feed grain production by means of acreage allotments and marketing quota programs have failed dismally. They have created inefficiencies in production, increased production costs, and shifted the surplus problem from one commodity to another.

The Farm Bureau program would enable each farmer to decide for himself which grains he should grow, how much of each he can best produce, and whether he would be better off to place a part, or all, of his farm under a truly voluntary cropland retirement contract.

New wheat legislation should be enacted in time to eliminate the necessity for another referendum on the wheat certificate plan which was rejected by wheatgrowers in 1963.

(2) Price supports on wheat and feed grains: Beginning with the 1966 crop, price supports for wheat would be set at the U.S. farm

price equivalent of the average world market price during the immediately preceding 3 marketing years—currently about \$1.34 per bushel. (See table following.) Premiums and discounts would be used to reflect market demand for milling and baking quality.

For corn, supports would be equal to 90 percent of the average price received by farmers for corn during the immediately preceding 3 years. (See table following.) Currently this would mean a price support of about 98 cents per bushel for corn. Supports for other feed grains would be related to corn with differentials to reflect differences in feeding value.

Under no circumstances would the price support level for wheat or corn be less than 50 percent of the applicable parity price—currently \$1.29 per bushel for wheat and 79 cents per bushel for corn. At the present time support prices computed by the proposed market price formulas would be considerably higher than 50 percent of parity for both wheat and corn.

This approach would eliminate administrative discretion with respect to price support levels for wheat and feed grains and automatically adjust support prices to changing supply and demand conditions. Support prices set in this manner would not impede the workings of the market and would not be an incentive to increase production. Yet they would provide protection against any substantial drop in wheat and feed grain prices.

Because price supports set in this manner would not be a stimulant to production, it would not be necessary to continue restrictions on production or marketing of grains.

Wheat: U.S. average farm prices, export payment rates, and estimated world prices

[U.S. farm price bases]

Marketing year, July-June	Average farm price received, dollars per bushel	Export payment rate, dollars per bushel	Estimated world price, dollars per bushel
1956-57	1.97	0.74	1.23
1957-58	1.93	.61	1.32
1958-59	1.75	.47	1.28
1959-60	1.76	.53	1.23
1960-61	1.74	.50	1.24
1961-62	1.83	.54	1.29
1962-63	2.04	.66	1.38
1963-64	1.85	.49	1.36
1964-65 preliminary	1.38		

Corn: U.S. season average farm prices ¹

Crop year:	Corn (dollars per bushel)	Crop year—Continued	Corn (dollars per bushel)
1952-53	1.520	1959-60	1.040
1953-54	1.480	1960-61	.997
1954-55	1.430	1961-62	1.080
1955-56	1.350	1962-63	1.100
1956-57	1.290	1963-64	1.090
1957-58	1.110	1964-65 preliminary	1.14
1958-59	1.120		

¹The season average price of corn as published by USDA includes an allowance for CCC takeover.

Senator COOPER. You say at the bottom of page 19 that the wheat program should be allowed to expire. Then on page 20, the next to the last paragraph, you say that legislation should be enacted in time to eliminate the necessity for a referendum. What does that mean?

Mr. SHUMAN. This simply means that if there is no legislative action by this Congress, there would be another wheat referendum this year for next year's crop.

Senator COOPER. You mean the last vestige of the present wheat program?

Mr. SHUMAN. We are not advocating a referendum, although we won the last one, and I don't think we would be afraid to carry another one. That just simply means we are not for a referendum.

Senator HOLLAND. You mean in the event no new legislation is enacted and the present law expires, the old law comes into force and would require a referendum?

Mr. SHUMAN. That is right. Now, let me say this. I think worse things could happen than that. There would be no legislation enacted by this Congress. It would be rather simple for the Congress to take action to do away with the referendum, even if no other legislation was enacted. After all, the act of 1958 wasn't too bad, and we wouldn't be afraid of having to go back to it.

The CHAIRMAN. You mean the wheat program?

Mr. SHUMAN. That is right.

The CHAIRMAN. As it was before we made the change?

Mr. SHUMAN. Yes.

The CHAIRMAN. With a minimum of 55 million acres?

Mr. SHUMAN. Yes. We were prepared to live with it.

The CHAIRMAN. Well, the Government wasn't.

Mr. SHUMAN. Well, apparently not.

The CHAIRMAN. Of course not.

Mr. SHUMAN. The Congress took other action.

The CHAIRMAN. When that 55 million minimum acreage was put in there, the production of wheat was 11.6 bushels per acre, and now it is 25 bushels per acre. Before the changes the supply of wheat was far in excess of our requirements.

Mr. SHUMAN. Of course, if there was no action on wheat legislation, the price support also would be at a relatively low level.

The CHAIRMAN. Seventy-five to——

Mr. SHUMAN. Fifty.

The CHAIRMAN. You mean the present law?

Mr. SHUMAN. If the present law is not extended or nothing is taken care of, it is my understanding it would go to 50 percent.

The CHAIRMAN. If the referendum is defeated.

Mr. SHUMAN. Yes.

The CHAIRMAN. But if it were not, then, of course, you would have a program on an involuntary basis.

Mr. SHUMAN. Yes.

The CHAIRMAN. As you have now, along the same lines.

Mr. SHUMAN. We would prefer not to have a referendum, but if necessary we could go that route.

The CHAIRMAN. Oh, you have got the votes to beat it, I guess.

Mr. SHUMAN. I don't know whether we have or not, but we would be willing to have them counted.

(3) CCC sales policy—Wheat and feed grains: To protect farmers against competition from CCC surplus stocks of wheat and feed grains, sale of these stocks would be prohibited at less than 125 percent of prevailing support levels, plus reasonable carrying charges, except for sales simultaneously offset by open market purchases. (This exception is designed to provide needed flexibility for the maintenance of good inventory management practice.)

Farmers' experience with the CCC dumping of both feed grains and wheat under the "emergency" programs of recent years has been highly unsatisfactory. The isolation of CCC stocks from the market would reinstate immediately the traditional functions of the market system in establishing farm commodity prices and guiding agricultural production. Farmers should not be handicapped by ceilings put on current commodity prices through the dumping of CCC stocks, which have been built up under unsound programs of the past.

(4) Cropland retirement: Farm Bureau believes that a practical land retirement program would facilitate adjustment of agricultural production to effective market demand. The program should be temporary and voluntary, provide for competitive bids, take cropland out of production for 3 to 5 years (except that land diverted to timber could be placed under contract for up to 10 years) and prohibit the harvesting or grazing of retired acres.

The Secretary would be authorized for a period of 3 years to enter into contracts with producers of any commodity for the voluntary retirement of cropland with emphasis on whole-farm retirement. Participants would be required to establish and maintain proper vegetative cover and control noxious weeds on the retired land.

A cropland retirement program of this nature would lead to much greater reduction in productive capacity per dollar of cost and would eliminate most of the administrative problems associated with the emergency-type programs of recent years.

The voluntary nature of this proposed cropland retirement program minimizes the likelihood that it could have any adverse effects on individual counties or communities; however, to make certain that no area would be adversely affected, the Secretary would be directed to place a maximum limitation on the percentage of total cropland which could be retired in any one State or county.

Senator HOLLAND. I notice you have a provision there to provide for competitive bids.

Mr. SHUMAN. Yes.

Senator HOLLAND. That would of course require a limitation of the amount that would be retired.

Mr. SHUMAN. Yes.

Senator HOLLAND. What is the suggested amount?

Mr. SHUMAN. We are suggesting about 20 million a year, 20 the first year, 20 more, and 60 million at the end of 3 years.

Senator HOLLAND. 20, 40, and 60.

Mr. SHUMAN. Yes.

Senator HOLLAND. Over the 3-year period.

Mr. SHUMAN. Roughly that.

Senator HOLLAND. And you would have bids taken?

Mr. SHUMAN. Yes.

Senator HOLLAND. And you would have these reduced acreages come out only of the croplands?

Mr. SHUMAN. That is right.

Senator HOLLAND. And who would determine what is cropland and what is not?

Mr. SHUMAN. I think we have definitions in the existing law which can be used. We are not proposing different definitions on cropland than what has been.

The CHAIRMAN. Would you consider tame hay as cropland?

Mr. SHUMAN. Yes.

Senator HOLLAND. I remember there was some arguments when the conservation reserve was set up as to what constituted cropland under certain conditions, and I wondered if there was any more specific definition within the scope of the legislation which you recommend and that which has existed heretofore.

Mr. SHUMAN. We haven't suggested any difference, I don't believe.

Mr. COLLINS. We consider the land that is used in the rotation of crops.

Mr. SHUMAN. Essentially the same cropland definition that has been in effect.

Senator HOLLAND. And in the event of a controversy as to what is the character of lands which the producers claim are croplands, the Department of Agriculture would be the ultimate deciding referee?

Mr. SHUMAN. That is right.

Effect of Farm Bureau program: The proposal to terminate both wheat allotments and the present feed grain program and to institute a cropland retirement program puts all grains on the same basis. It provides no restrictions on individual farm operations except those applying to land voluntarily retired under the program. All farmers will be completely free to use all their noncontracted cropland as they wish, except for crops under marketing quotas.

One of the primary goals of Farm Bureau's program is to provide farmers the opportunity to use their land, capital, and labor for the production of commodities which promise greater returns and highest possible net income. Such planning freedom would lead to more efficient and profitable production in all areas of agriculture, including the highly important livestock, dairy, and poultry sectors.

The Farm Bureau program is designed to solve the feed grain and wheat surplus problems within the framework of the market system. It gets away from historic bases, yield factors, minimum allotments, administrative discretion, and other problems inherent in Government efforts to regulate individual farming operations. It preserves the opportunity for each farmer to make his own decisions. It provides for needed adjustments in resource use without forcing every farmer to retire a part of his farm without regard to his individual circumstances. It uses support prices to encourage orderly marketing and needed adjustments in production rather than to fix prices.

RICE

Our appraisal of the administration's rice proposal, title III, of S. 1702: The rice proposal is modeled after the wheat certificate plan. In

our opinion such plans are unsound in principle, unfair to domestic consumers, and injurious to producers.

Like the wheat certificate plan, the proposed rice program would:

(1) Utilize what amounts to a processing tax to raise prices to domestic consumers;

(2) Permit the use of CCC stocks to depress prices to farmers;

(3) Make producers dependent on Government-controlled and manipulated payments for a substantial part of their income;

(4) Widen and perpetuate the gap between domestic and export prices; and

(5) Distribute rights to domestic and export markets without regard to the quality of the product that is produced or the use that is made of it.

Senator HOLLAND. What is the comparison or contrast—I don't know which it is—between rice and wheat on the question of what proportion of the crop normally is exported?

Mr. COLLINS. We have a table on that.

Mr. SHUMAN. What page is that?

The CHAIRMAN. About 60 percent of the rice crop is exported, and insofar as wheat is concerned—

Mr. SHUMAN. Page 30, I believe.

The CHAIRMAN. It varies; what is sold abroad, what is exported, and what is sent through Public Law 480.

Mr. SHUMAN. That is right.

The CHAIRMAN. Would be almost the same as rice.

Senator HOLLAND. I see on page 30, Mr. Chairman, there seems to be a chart that bears on this subject. Apparently the amount exported of the total rice production at least since 1957 has been rising considerably.

Mr. SHUMAN. Yes; we are up to almost 60 percent of the rice that is exported.

The CHAIRMAN. That is through Public Law 480, of course.

Mr. SHUMAN. Yes.

The CHAIRMAN. I would say that more than half of our exports are through Public Law 480.

Senator HOLLAND. And how does that contrast with the wheat situation?

The CHAIRMAN. There is not much difference percentagewise.

Senator HOLLAND. How much is exported?

Mr. SHUMAN. Of the total wheat crop?

Senator HOLLAND. Yes.

Mr. SHUMAN. It is not as high as 60 percent of the wheat that is exported.

The CHAIRMAN. It is pretty close to it.

Mr. SHUMAN. Fairly close.

The CHAIRMAN. Yes. And most of the wheat that is exported is under Public Law 480.

Mr. SHUMAN. Yes; that is correct.

The CHAIRMAN. I think a greater percentage of the wheat that is exported—I mean that is exported under Public Law 480—than in the case of rice.

Mr. SHUMAN. Yes.

The CHAIRMAN. Rice is about half and half—half dollars and the rest Public Law 480—and wheat is——

Mr. COLLINS. About 65 to 70 percent in the last couple or 3 years.

Senator HOLLAND. What is that?

Mr. COLLINS. It has been in the range of 65 to 70 percent in the last few years on wheat.

Senator HOLLAND. And the rest of it either private sales or under the International Wheat Agreement.

Mr. COLLINS. Yes.

Senator COOPER. The table on page 11 shows the exports.

Senator HOLLAND. Sixty-five percent of the amount exported is under Public Law 480, not that 65 percent is exported.

The CHAIRMAN. Half of our exports, which would be about 30 percent of the production.

Senator HOLLAND. What I trying to get at is this.

(Discussion off the record.)

(The information follows:)

Wheat—Production and utilization

Item	Year beginning July 1				
	Average, 1957-61	1962	1963 ¹	1964 ^{1 2}	1965 ²
Production (million bushels)-----	1, 225. 3	1, 093. 7	1, 142. 0	1, 290. 0	1, 239. 0
Disappearance (million bushels)-----	1, 150. 7	1, 226. 2	1, 440. 0	1, 295. 0	1, 337. 0
Domestic (million bushels)-----	603. 0	583. 9	580. 5	610. 0	637. 0
Total exports ³ (million bushels)-----	547. 7	642. 3	859. 5	685. 0	700. 0
Dollar exports (million bushels)-----	(171. 9)	(151. 7)	(351. 6)	(⁴)	(⁴)
Total exports as a percent of production...	44. 7	58. 7	75. 3	53. 1	56. 5
Dollar exports as a percent of total exports...	31. 4	23. 6	40. 9	(⁴)	(⁴)
Domestic disappearance as a percent of production-----	49. 2	53. 4	50. 8	47. 3	51. 4

¹ Preliminary.
² All figures for 1965 and distribution items for 1964 are projected.
³ Includes flour wholly from U.S. wheat and other products in terms of wheat.
⁴ Not available.

Source: Wheat Situation, USDA, May 1965.

Mr. SHUMAN. It would be hard to imagine an approach that would be more destructive of the market system. The interests of producers, consumers, and the rice industry would be better served by programs which move toward more, not less, reliance on the market system.

We cannot possibly build a firm basis for farm prosperity without a continued effort to improve our ability to serve consumers.

The philosophy of the certificate plan is, in effect, “Let the consumers be damned. They can take whatever we want to produce, and we’ll tax domestic consumption in order to subsidize the production of surpluses which are to be dumped in the foreign market.”

As in the case of wheat, ricegrowers would receive domestic certificates in the same amounts on the basis of a national formula whether all or none of their production is used domestically. The inevitable result of such an approach is to divert producer’s attention from consumer preferences and to stress yield at the expense of quality. This is not the way to build markets.

Rice competes with many other foods, and some of the decisions that affect its consumption are made by people—such as processors and institutional buyers—who are sensitive to increases in raw material costs. A retail price increase of the magnitude that is to be expected from the adoption of the pending proposal inevitably would have an adverse effect on consumption even though the effect on the average consumer’s budget would be small.

Those families with the lowest income are the largest consumers of rice and would be taxed the most which is impossible to defend. Please note the following table. This table shows that the U.S. average consumption per capita is higher with low-income people and then the southern consumption of rice with the lower per capita income is much higher.

(The table follows:)

*Rice: Consumption at home by households of 2 or more persons in a week
(April–June 1955) United States and the South*

[In pounds]

Family annual money income after taxes	All urbanizations (rural farm, rural nonfarm, urban)	
	United States	South
Under \$1,000.....	0.53	0.73
\$1,000 to \$1,999.....	.55	.93
\$2,000 to \$2,999.....	.50	.90
\$3,000 to \$3,999.....	.31	.44
\$4,000 to \$4,999.....	.22	.39
\$5,000 to \$5,999.....	.19	.40
\$6,000 to \$7,999.....	.20	.29
\$8,000 to \$9,999.....	.16	.19

Source: Household Food Consumption Survey 1955 Reports No. 1 and No. 4, USDA (latest figures available).

Mr. SHUMAN. The administration apparently has overlooked the fact that the rice certificate plan would have a disproportionate effect on consumers in Hawaii and Puerto Rico.

The “background” statement submitted to Congress says:

* * * Retail prices of rice would probably increase a few pennies per pound. Based on average per capita consumption this means that a consumer might spend an average 30 cents more for rice each year.

Since the average consumption of milled rice (excluding consumption as beer) is around 6 pounds per capita for the United States as a whole, the above statement suggests that the proposed program would increase the retail price of rice about 5 cents per pound.

In 1961–62, the last year for which we have data, U.S. shipments of milled rice for direct food use amounted to 112.7 pounds per capita in the case of Hawaii, and 124.8 pounds per capita in the case of Puerto Rico. On the basis of these figures an increase of 5 cents per pound in the retail price of rice would cost the average consumer \$5.64 per year in Hawaii and \$6.24 in Puerto Rico. The result of such an increase in food costs would be particularly serious in Puerto Rico, where the average family is much larger and per capita income much lower than the U.S. average.

From the standpoint of producers, the certificate plan is a cleverly baited trap which seems to promise much more than it actually does.

Secretary Freeman has been quoted as saying that ricegrowers would get 100 percent of parity for the domestic portion of their crop. We presume he means “for the first year,” since he is asking for authority to set returns on the domestic portion of the crop anywhere that he sees fit between 65 and 100 percent of parity. Under the Agricultural Act of 1958 rice producers are guaranteed a minimum support price of 65 percent of parity on the output of their allotted acres. Under the proposed program noncertificate rice (about 65 percent of the crop in excess of the first 1,500 hundredweight of each producer’s output) would have virtually no support, and the support level could be reduced to 65 percent of parity on the certificate portion of the crop.

The significance of this broad grant of discretionary authority is illustrated by the table that follows.

This table spells out the possible range in price that the producer could get under this wide discretionary authority.

(The table is as follows:)

Illustrative range of blend prices for rice (in excess of the 1st 1,500 hundredweight), under the certificate plan

[Per hundredweight]

	65 percent of crop might bring	35 percent of crop would bring	Average or blend price could be
If support for domestic portion of crop is—			
65 percent of May parity-----	\$3. 60	\$4. 30	\$3. 85
100 percent of May parity-----	3. 60	6. 62	4. 66

Mr. SHUMAN. Any additional certificates that might be distributed on the first 1,500 hundredweight produced would, of course, raise the blend prices shown above; however, the point is that the Secretary could set the support price on certificate rice as high as \$6.62 per hundredweight, or as low as \$4.30, on the basis of the present parity price.

If we go down the certificate road we could wind up with a very low average support level and a stifling maze of bureaucratic controls. Instead, growers logically should be given more freedom to run their own businesses when supports are reduced.

Mr. Freeman has also been quoted as saying that he has no intention of cutting the national rice allotment. However, he is asking for a change in the allotment formula which would permit a sizable cut now and further cuts in the future as per-acre yields increase.

The proposal to distribute additional marketing certificates on the first 1,500 hundredweight of each producer’s production is an effort to give the program a welfare flavor by increasing average returns to small producers. This is a clumsy and ineffectual approach to the poverty problem.

Unlike the producers of some other crops most ricegrowers are fairly large operators. Consequently, the largest portion of the extra certificates would go to growers who produce more than 1,500 hundredweight of rice.

Since rice is not necessarily the sole source of a producer’s income, the volume of his rice production is not necessarily an accurate measure of his size of business or income level. Moreover, to the extent that

it encouraged growers to continue production on small acreages, the proposed program would perpetuate inefficiency.

Our recommendations with respect to rice: The rice provisions of the Agricultural Act of 1958 were developed and passed in an effort to move rice toward greater reliance on the market system. Real progress was made under this act in 1959 and 1960; however, the cost of the program was increased when Secretary Freeman used discretionary authority to increase both the national acreage allotment and the support price. (See tables on the following pages.) If additional acreage was needed to produce rice for foreign aid, an appropriate part of the cost should have been charged to foreign aid rather than the rice program.

In our opinion the rice provisions of the 1958 act are sound. We recommend that these provisions be continued in effect and that the philosophy of the 1958 act be adhered to in the establishment of future acreage allotments and price support levels for rice. No new rice legislation is needed.

The CHAIRMAN. As I understand it, you would not recommend any kind of—

Mr. SHUMAN. Rice legislation.

The CHAIRMAN. Rice legislation?

Mr. SHUMAN. That is right.

The CHAIRMAN. Which would, of course, eliminate the two-price system entirely.

Mr. SHUMAN. That is right.

The CHAIRMAN. No matter how it is proposed.

Mr. SHUMAN. That is right.

Our appraisal of the cotton situation: A review of the cotton situation shows the cotton problem has grown progressively worse since the basic philosophy of the Agricultural Act of 1958 was abandoned in 1961. Since that time cotton consumption has declined; production has continued to increase despite a cut in allotments of more than a million acres; carryover has shot upward from 7.1 million bales in 1961 to an estimated 13.4 million on August 1, this year; manmade fiber consumption has continued to eat away cotton markets; the cost of the cotton program has grown higher and higher; and farm income from the sale of cotton has weakened materially.

These are a little out of place, but the next page is the table on rice, the next two pages are the rice tables.

(The tables follow:)

National acreage allotment, harvested acreage, support and average market price of rice, 1959-56

Crop year	Acreage (thousand acres)		Support price	Price received by farmers
	Allotted	Harvested		
			<i>Hundredweight</i>	<i>Hundredweight</i>
1959-----	1, 653	1, 587	\$4. 38	\$4. 59
1960-----	1, 653	1, 596	4. 42	4. 55
1961-----	1, 653	1, 590	4. 71	5. 14
1962-----	1, 818	1, 774	4. 71	5. 04
1963-----	1, 818	1, 772	4. 71	5. 01
1964-----	1, 818	¹ 1, 786	4. 71	4. 93
1965-----	1, 819	-----	4. 50	-----

¹ Preliminary.

Supply of rice (rough rice equivalent), United States, 1956-64
[1,000 hundredweight]

Year beginning Aug. 1	Beginning stocks	Production	Total supply ¹
1956-----	34,618	49,459	84,463
1957-----	20,103	42,935	63,275
1958-----	18,169	44,760	63,093
1959-----	15,669	53,647	70,106
1960-----	12,144	54,591	67,023
1961-----	10,080	54,198	64,663
1962-----	5,334	66,045	71,418
1963-----	7,730	70,269	78,016
1964 (estimated)-----	7,539	73,113	80,702

¹ Includes imports.

Disappearance of rice (rough rice equivalent), United States, 1956-64
[1,000 hundredweight]

Year beginning Aug. 1	Food	Industry	Seed	Exports	Total disappearance	Percentage of total disappearance	
						Used for food	Exported
1956-----	19,170	5,088	1,735	37,548	63,541	30.2	59.1
1957-----	19,020	4,789	1,849	18,315	43,973	43.3	41.7
1958-----	18,840	4,706	2,071	19,750	45,367	41.5	43.5
1959-----	20,708	4,950	2,092	29,233	56,983	36.3	51.3
1960-----	19,917	4,908	2,119	29,474	56,418	35.3	52.2
1961-----	22,551	4,690	2,329	29,155	58,725	38.4	49.6
1962-----	21,930	4,089	2,366	35,065	63,450	34.6	55.3
1963-----	22,890	3,843	2,380	41,375	70,488	32.5	58.7
1964 (estimated)-----	23,300	3,800	2,400	41,500	71,000	32.8	58.5

Relative importance of exports and domestic consumption to major rice-producing areas

[1,000 hundredweight, milled basis]

SOUTHERN AREA

Crop year	Domestic consumption	Exports	Total distribution	Percentage of total distribution	
				Consumed domestically	Exported
1958-----	9,380	10,275	19,655	47.7	52.3
1959-----	12,162	17,680	29,842	40.8	59.2
1960-----	12,031	18,246	30,277	39.7	60.3
1961-----	11,977	16,876	28,853	41.5	58.5
1962-----	12,414	20,427	32,841	37.8	60.2

CALIFORNIA

1958-----	6,214	3,302	9,516	65.3	34.7
1959-----	5,857	1,969	7,826	74.8	25.2
1960-----	6,336	2,641	8,977	70.6	29.4
1961-----	7,311	3,800	11,111	65.8	34.2
1962-----	5,530	4,940	10,470	52.8	47.2

Mr. SHUMAN. These are statistical tables, USDA.

COTTON

Results of the 1964 emergency cotton law: It is now evident that the present law has failed to fulfill the claims made for it at the time of its passage by Congress last year. We recall that its proponents indicated that under the program consumption of cotton would increase, cost to the U.S. taxpayer would decline, consumer prices of cotton goods would be lowered, the upward trend in manmade fiber use would be halted, and farm income from cotton would be maintained.

These were the promises and it has been not so long ago but what we can remember what those promises were.

As we now review what actually happened after a year of experience with the program we find:

1. Cotton consumption did increase domestically but much less than the increase shown by manmade fibers. Cotton's share of the fiber market actually dropped by more than a full percentage point.

2. Cotton exports this marketing year are now estimated to be down by a fifth from last year and indications are that the drop will be even greater.

3. Cost of the program ran up to more than \$800 million, far exceeding the cost of the previous program.

The CHAIRMAN. \$448 million I think is what they predicted.

Mr. SHUMAN. Yes, it is almost double, \$800 million.

The CHAIRMAN. You read my speech on that, I hope.

Mr. SHUMAN. Yes, sir. I sure did.

4. Prices of cotton cloth did not decline; in fact the average price of 20 cloth constructions was 64.65 cents in May 1965 compared to 61.29 cents in May 1964.

5. Mill margins in May 1965, as reported for 20 major cloth constructions, averaged 37.30 cents compared to 25.62 cents in May 1964.

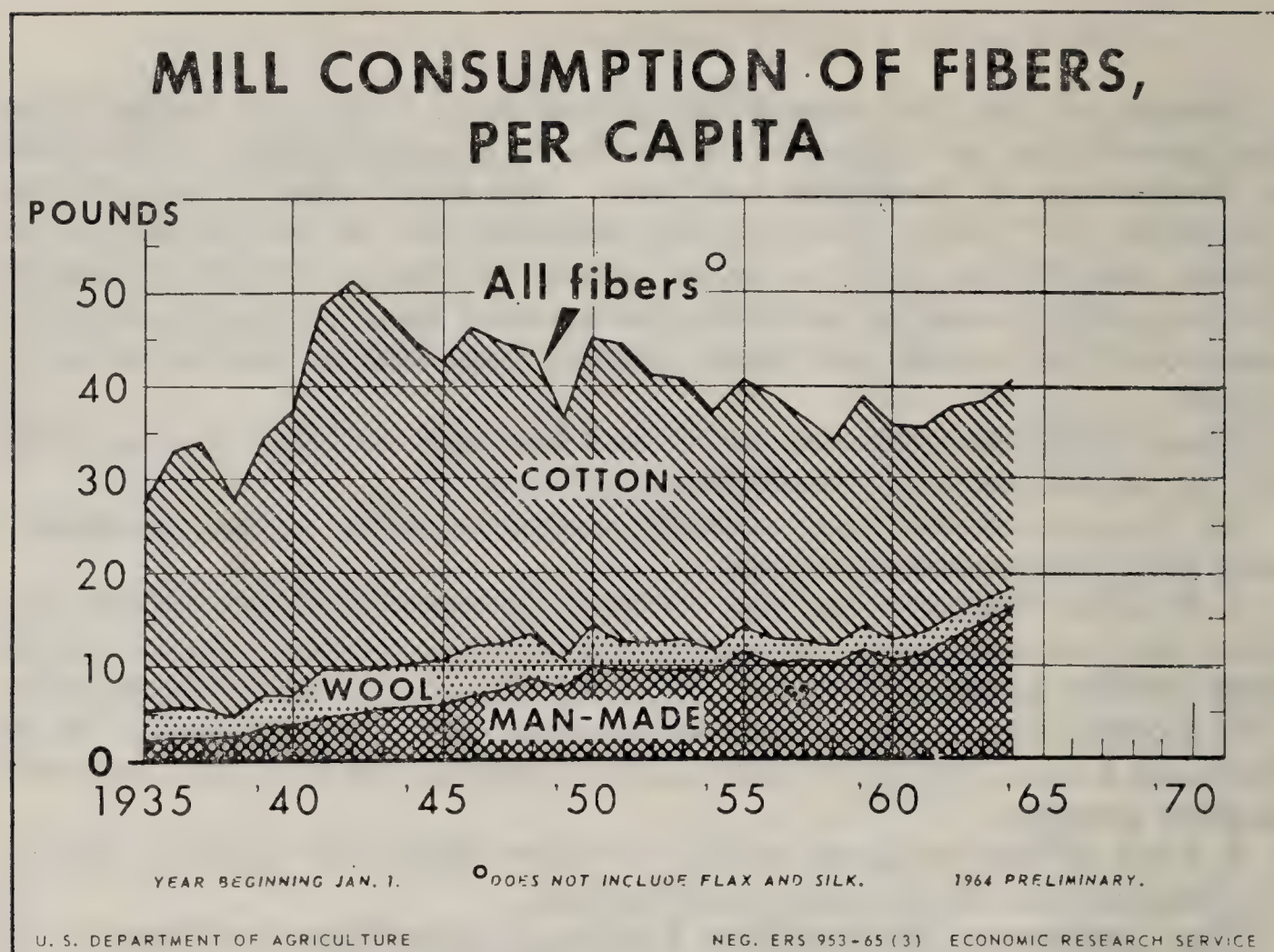
6. The combined value to farmers of cotton and cottonseed from the 1964 crop totaled \$2.546 million, or more than 8 percent less than the value of \$2.784 million from the 1963 crop. Yet the 1964 crop was as large as the 1963 crop.

From these facts it is clear that the accomplishments of the present cotton program during the last year were far from what the Congress was led to expect when the underlying law was passed just over a year ago.

The cotton cycle: Mill consumption of fibers runs in cycles. The following chart shows the movements of the cycle from the year 1935 through the end of 1964.

This chart shows how the consumption of cotton is gradually being squeezed by the increase in the manmade fibers, and actually we lost ground again last year despite the new legislation.

(The chart follows:)



Per capita mill consumption of cotton in calendar 1964 was slightly over 22 pounds. This was nearly a pound more than in 1963 when per capita cotton consumption was the smallest since 1934. Per capita manmade fiber consumption totaled about 16.5 pounds, up nearly 2 pounds from 1963.

Cotton's share of total fiber consumption declined slightly in 1964 to a record low of 54.5 percent. Manmade fibers' share in 1964 was about 41 percent—a record high. Wool use accounted for about 4.5 percent.

Mr. SHUMAN. You will note from this chart that the proportion of total mill consumption has been increasing dramatically for man-made fibers and decreasing for cotton.

Senator HOLLAND. This is domestic mill consumption, is it not?

Mr. SHUMAN. Yes.

The CHAIRMAN. The same thing is true abroad.

Mr. SHUMAN. Exports fell off, too.

The CHAIRMAN. But I say this differential——

Mr. SHUMAN. Yes.

The CHAIRMAN (continuing). Between the use of cotton and man-made fibers.

Mr. SHUMAN. Yes.

The CHAIRMAN. Increased abroad even more than ours, and that in spite of the fact that they have been getting cotton from us at world prices.

Mr. SHUMAN. Yes; that is true.

The following table shows domestic mill consumption of cotton and manmade fibers, by months, for the years 1963-64 and 1964-65 (April through March). Since the current cotton law became effective in April 1964, this is the proper starting point for judging what has happened during the first 12 months of its operation.

You also will note from this table that domestic mill consumption of cotton was up by 8.4 percent during the last 12 months compared to a year earlier, but manmade fiber was up 11.9 percent. Since man-

made fiber use has increased more than cotton consumption during the last year, it is obviously erroneous to conclude that the increase in cotton was due to the new mill subsidy. It didn't do what it was supposed to do.

(The table follows:)

Domestic mill consumption of cotton and manmade fiber, by months, April through March, 1963-64 and 1964-65

Month	Cotton (running bales)		Manmade fibers (cotton system spindles) (thousand pounds)	
	1963-64	1964-65	1963-64	1964-65
April.....	798,901	822,946	78,573	89,760
May.....	685,608	680,395	67,001	73,565
June.....	654,787	676,822	68,817	73,678
July.....	677,629	735,735	72,790	80,404
August.....	657,697	705,705	68,962	77,444
September.....	651,702	695,029	66,929	75,262
October.....	823,449	872,570	85,395	94,719
November.....	669,305	716,202	70,678	76,827
December.....	587,982	791,215	63,554	84,856
January.....	807,610	722,305	85,387	76,204
February.....	676,325	733,785	73,265	78,245
March.....	665,196	905,074	72,758	96,837
Total.....	8,356,191	9,057,783	874,109	977,801
Difference.....	701,592		103,692	
Percent change.....	+8.4		+11.9	

Mr. SHUMAN. From these data we see:

(1) Domestic cotton consumption has increased 701,592 bales—not “800,000 to 1 million” bales.

(2) The relative gain in consumption of manmade fibers was 42 percent ($11.9 \div 8.4$) greater than the gain in cotton.

Senator AIKEN. Was not that increased use of cotton due to the fact that the mills were waiting for the subsidy to be enacted into law?

Mr. SHUMAN. I think that this certainly had some effect on the increase.

Senator AIKEN. They held off buying when they thought the bill was going to go through, so that it really was not an actual increase in buying probably.

Mr. SHUMAN. I don't think the cotton legislation of last year has, in any sense of the word, helped to improve the situation as far as cotton versus the synthetics.

Senator AIKEN. It helped virtually all the cotton textile mills to show record profits.

Mr. SHUMAN. Yes; we have got that documented a little later on.

Considering these facts it is clear that the gain in cotton consumption over the last year was due to something other than the cotton program and that this “something” affected synthetic fibers more favorably than cotton. To put it more simply, instead of gaining relative to synthetics under the new program, cotton lost.

Chairman Ellender and other have indicated that the cost of the current cotton program is in excess of \$900 million annually. This high cost is in glaring conflict with the claims made by the proponents at the time the law was passed. Because of its high cost and poor performance, the entire program has been highly embarrassing to the executive branch of our Government and a matter of concern to all

people who are interested in solving the cotton problem at reasonable public cost.

Another claim of the proponents of the current cotton law was that consumer prices would be reduced. The recently retired Secretary of Commerce, Luther H. Hodges, on January 31, 1964, wrote Senator Ellender the following:

DEAR MR. CHAIRMAN: It is my understanding that during the course of your current hearings on the need for emergency cotton legislation, the question continues to arise as to whether or not a reduction of 8½ cents per pound in the cost of cotton to domestic mills would be reflected in savings to American consumers of cotton textile products. When similar legislation was being considered by the House Committee on Agriculture, Hickman Price, Jr., then Assistant Secretary of Commerce, testified in behalf of this Department that savings to consumers would amount to about \$90 million for each cent of reduction. A reduction of 8½ cents per pound would thus result in a saving to consumers of more than \$700 million. This saving, Mr. Price said, would come with a lag of from 3 to 8 months, the time from first consumption at the mill to ultimate consumer, and would be reflected in either lower prices or higher quality of the merchandise.

He is far from right. It hasn't. It has gone up.

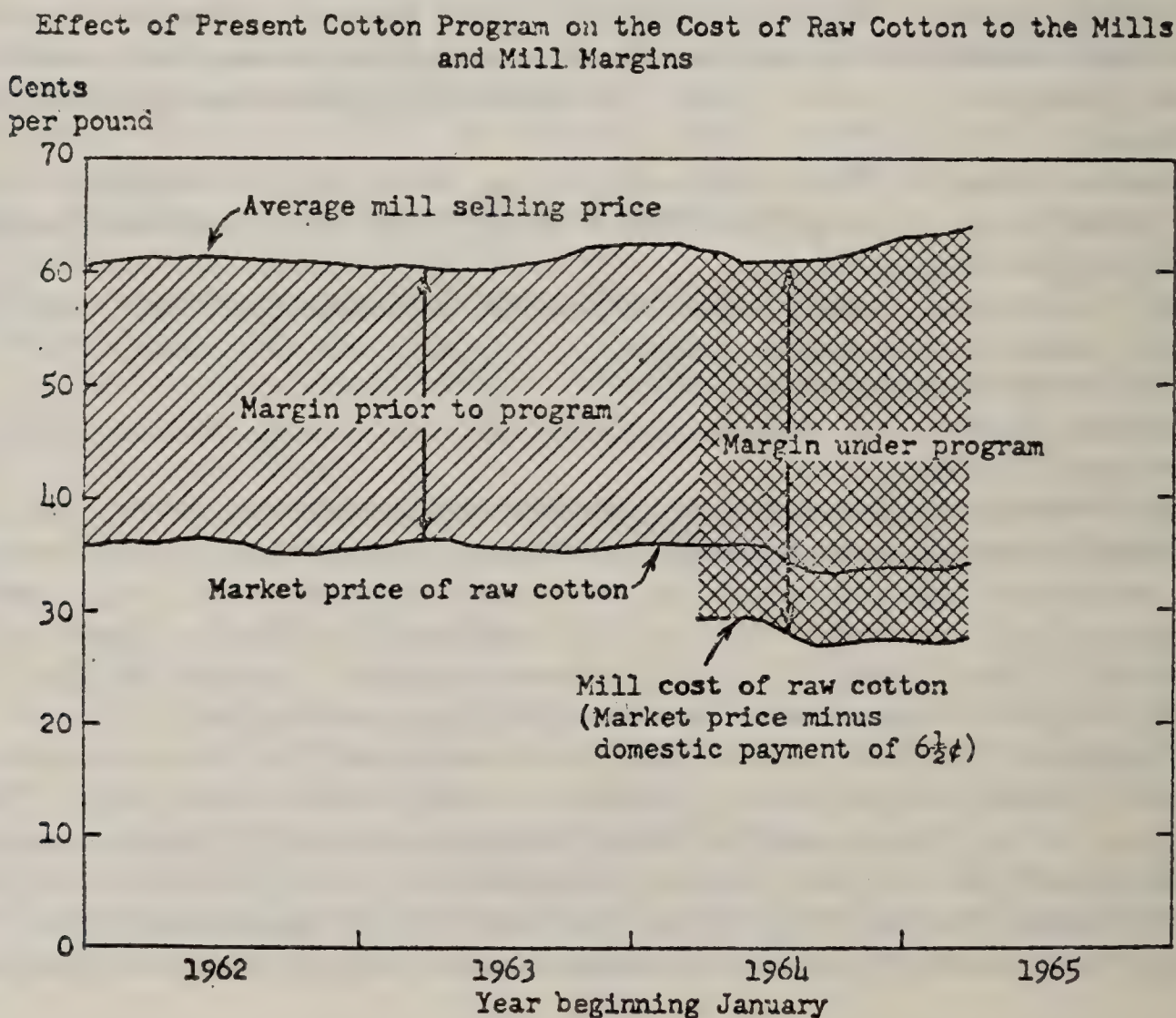
The following chart and tables indicate the effect of the present cotton program on the cost of raw cotton to the mills, the average mill selling price, and mill margin.

Here, Senator, is what you were talking about, which shows rather dramatically with this margin prior to the program and how immediately after the program went into effect the mill margin went up almost by the amount of the subsidy. So it went into the——

Senator AIKEN. And farm prices are down.

Mr. SHUMAN. It went into the corporate profits of the mills, and some of it went into the labor increases.

(The table follows:)



The CHAIRMAN. That is one case in which I can say “I told you so.”

Senator HOLLAND. I will have to admit it, Mr. Chairman. I did not agree with you at the time.

Mr. SHUMAN. Page 35 is the detailed cloth and raw cotton prices and mill margins by months beginning with 1962.

(The information follows:)

Cloth and raw cotton prices and mill margins by months beginning with 1962

[Cents per pound]

	Average for 20 constructions		
	Unfinished cloth prices	Raw cotton prices	Mill margins
1962—January	60.63	35.78	24.85
February	60.76	35.82	24.94
March	61.07	35.98	25.09
April	61.23	35.85	25.38
May	61.19	36.13	25.06
June	61.24	36.34	24.90
July	61.29	36.19	25.10
August	61.12	35.89	25.23
September	60.93	35.23	25.70
October	60.71	35.08	25.63
November	60.68	35.10	25.58
December	60.67	35.30	25.37
1963—January	60.55	35.45	25.10
February	60.47	35.66	24.81
March	60.49	35.95	24.54
April	60.26	36.08	24.18
May	60.00	36.16	23.84
June	60.11	35.86	24.25
July	60.28	35.57	24.71
August	60.60	35.33	25.27
September	60.99	35.19	25.80
October	61.34	35.11	26.23
November	62.00	35.27	26.73
December	62.29	35.37	26.92
1964—January	62.32	35.47	26.85
February	62.37	35.55	26.82
March	62.37	35.58	26.79
April	61.82	35.63	¹ 26.19
May	61.29	35.67	¹ 25.62
June	60.87	35.76	¹ 25.11
July	60.95	35.60	¹ 25.35
August	61.00	27.64	33.36
September	61.02	26.82	34.20
October	61.25	26.80	34.45
November	61.48	26.98	34.50
December	62.58	27.30	35.28
1965—January	63.24	27.30	35.94
February	63.28	27.26	36.02
March	63.42	27.26	36.16
April	63.89	27.40	36.49
May	64.65	27.35	37.30

¹ Does not include the 6.5 cents per pound cotton equalization payment made to domestic cotton users on all bales opened beginning 12:01 a.m., Apr. 11, 1964. USDA made no adjustment for these payments prior to August 1964.

Source: “Cotton Price Statistics,” Cotton Division, Consumer and Marketing Service, U.S. Department of Agriculture.

Mr. SHUMAN. It is obvious from the record that raw cotton prices were reduced by the amount of the mill subsidy; however, unfinished cloth prices did not decline by a similar amount; they actually rose slightly, and, of course, mill margins widened by even more than the amount of the mill subsidy. This is all in direct conflict with the promises made for the current cotton program.

In addition to the fact that the predictions of proponents of the current cotton program have not materialized, the industry itself,

from the producer to the consumer including the marketing mechanism, has been badly disrupted by this program.

The compensatory payments paid to small allotment holders and to those who stay within their domestic allotments, and the mill subsidy payments, have proved costly and of little value in alleviating the cotton problem.

Our appraisal of proposals to extend the present program: The administration apparently favors legislation which would extend for a 2-year period almost all of the bad provisions of the current cotton law and add some that are even more objectionable.

(1) The first proposed change from current law would reduce the minimum national acreage allotment for upland cotton from 16 to 14 million acres. This in itself is an admission that the current law has failed and indicates that proponents of the new legislation continue to feel that cotton must be a shrinking industry. This is in direct conflict with the views of Farm Bureau.

We are not ready to liquidate the cotton industry.

(2) The new proposal would permit compensatory payments to be made directly to farmers. Administration witnesses have clearly indicated their desire to make payments to producers. The bill provides that there would be no limitation on the payment to an individual producer. Past history indicates, however, that when large payments are made to producers, limitation invariably results after a short period of time. This is best proved by what has happened with ACP and soil bank payments. Both of these programs started out without any limitation but limitations were eventually added by the Congress. Limitations can be set through either a ceiling expressed in dollars or a graduated scale of payments as had been recommended by the Department of Agriculture with regard to the wool and rice programs.

(3) The new proposal would authorize the Secretary to increase payments made directly to small producers and those planting within their domestic allotments from 15 to 25 percent of the loan rate. This, too, moves in the wrong direction because it would increase costs and perpetuate inefficient production of cotton.

(4) In addition to increasing the amount of the direct payment to producers, the domestic allotment payment would be made to all producers of cotton with 15 acres or less regardless of whether the allotment acreage is planted. This obviously is a poverty-type payment that has no place in a program designed to solve the economic problems of the commercial cotton business. The purpose of a cotton program should be to solve cotton's problems rather than to perpetuate them. (See table following on number and size of upland cotton allotments.)

(5) Under the proposed program, many cotton producers would receive in excess of one-third of the value of their crop in direct payments from the Federal Treasury. Those with 15 acres and less who did not plant cotton would, of course, be getting 100 percent of their cotton income from Government. Such a program is doomed to failure.

(6) While the proponents of this new program claim large savings over current costs, if history repeats itself the record will be quite different after the program is in operation.

(7) Finally, we see nothing in this new proposal that is an improvement over the current law which has proved to be a failure. On the contrary many parts of this new proposal would lead to even greater difficulty.

Page 38 is a number of original upland cotton allotments. This is a very interesting table which shows what has been happening, and I would suggest that it should be considered fairly significant.

(The table follows:)

Number of original upland cotton allotments in 1964, by size nationally and by States

State	Size and total number of original allotment (acres)						Col. 1 as percent of total	Cols. 2 to 5 as percent of total
	0.1 to 14.9	15 to 29.9	30 to 49.9	50 to 199.9	200 and over	Total		
	(1)	(2)	(3)	(4)	(5)			
Alabama	79,762	9,001	2,710	2,053	188	93,714	85.1	14.9
Arizona	832	510	429	1,020	427	3,218	25.9	74.1
Arkansas	26,506	8,815	3,605	4,320	998	44,244	59.9	40.1
California	4,202	1,868	1,299	2,438	660	10,467	40.1	59.9
Florida	5,108	373	75	32	1	5,589	91.4	8.6
Georgia	46,366	9,721	3,293	2,238	112	61,730	75.1	24.9
Illinois	297	20	11	6	1	335	88.7	11.3
Kentucky	695	50	33	26	1	805	86.3	13.7
Louisiana	18,919	4,556	1,703	1,838	314	27,330	69.2	30.8
Mississippi	55,185	9,452	3,326	3,857	1,308	73,128	75.5	24.5
Missouri	7,756	3,141	1,505	1,471	133	14,006	55.4	44.6
Nevada	1	3	3	11	2	20	5.0	95.0
New Mexico	2,083	1,104	715	887	81	4,870	42.8	57.2
North Carolina	61,075	3,714	1,202	720	31	66,742	91.5	8.5
Oklahoma	18,255	8,353	4,355	3,138	97	34,198	53.4	46.6
South Carolina	48,284	6,512	2,461	1,957	118	59,332	81.4	18.6
Tennessee	42,546	5,632	1,780	1,297	77	51,332	82.9	17.1
Texas	49,441	36,009	25,070	38,159	3,939	152,618	32.4	67.6
Virginia	4,591	89	24	8		4,712	97.4	2.6
United States	471,907	108,923	53,599	65,476	8,488	708,393	66.6	33.4
Percent of total	66.6	15.4	7.6	9.2	1.2	100.0		

Source: Assembled by AFBF staff from reports of the U.S. Department of Agriculture.

Mr. SHUMAN. Farm Bureau's recommendation for a new approach to the cotton problem: The current cotton situation and the alternatives available have been given very serious study by our Farm Bureau members. The following policy resolutions, adopted by the official voting delegates of the member State farm bureaus at their convention in December 1964, are pertinent to the issues now before this committee.

I quote them as follows:

Early in 1964, Congress sought to correct the accumulated difficulties which had arisen as a result of the unwise use of discretionary authority in establishing price support levels under the Agricultural Act of 1958 and which resulted in disastrous consequences to the cotton industry. It hastily enacted legislation for 1964-65 to deal with the emergency while a more permanent program was being developed.

In order to meet the needs of cotton farmers, restore cotton to a more competitive position with synthetic fibers and cotton produced abroad, and reestablish industry confidence that ample supplies of cotton will continue to be available at reasonable prices, we recommend:

- (1) A national price support level of 29 cents (basis M-1 inch) for 1965; 28 cents for 1966; 27 cents for 1967; and a level equal to 90 percent of the average market price received by farmers during the immediately preceding 3 years for 1968 and subsequent years.
- (2) Elimination of domestic equalization payments by annual reductions of 2 cents per pound in the 1965 and 1966 marketing years and termination of such payments in 1967.

(3) Continuation of present acreage release and reapportionment provisions.

(4) That producers be provided an opportunity to release their entire allotment permanently in exchange for a retirement payment equal to 8 cents per pound times normal yield annually for a period of 3 years. Allotment acreage released under this provision could be used only for conservation purposes during the contract period, but would remain in the State and be available for reallocation at the end of the 3-year period.

(5) That Commodity Credit Corporation stocks not be released at less than 115 percent of the loan rate plus carrying charges.

(6) Intensified research to reduce the cost of producing cotton.

(7) Tariffs to prevent unfair competition from imports of cotton textiles.

(8) Continuation of export subsidies as necessary to maintain adequate export markets.

(9) Termination of present provisions for the domestic allotment plan, direct payments to producers, and export acreage.

(10) Continuation of the present 16-million-acre minimum national allotment with increases as justified by market growth.

The CHAIRMAN. As I understand it, you would not change the act of 1958 very much.

Mr. SHUMAN. Not a great deal. We provide for a transition of reducing the mill subsidy gradually and reducing the price support.

The CHAIRMAN. And then your price support would be 90 percent of the last 3 years?

Mr. SHUMAN. That is right.

The CHAIRMAN. That would be about the only change.

Mr. SHUMAN. Yes.

S. 2079, a bill introduced by Senator Anderson, carries out our recommendations with one exception. Under our proposal acreage that is permanently released by the present allotment holder would be available for reallocation with the State at the end of a 3-year retirement period. Under the Anderson bill such acreage would be available for reallocation on a national basis.

The new Farm Bureau program has been thoughtfully tailored to overcome not only the shortcomings of the present law but to provide a sound solution to the cotton price problem at greatly reduced and fully defensible costs to the Federal Treasury.

This proposal offers the grower three alternatives. He may plant his allotment; he may release his allotment for reapportionment and maintain it as many have done in recent years; or he may release the allotment permanently in exchange for three annual retirement payments.

Under the latter alternative, the grower would agree to release his allotment permanently and devote the land to conservation uses for a period of 3 years. For this he would receive annual payments at a rate equal to 8 cents per pound times his normal cotton yield times the acreage of his allotment.

The provisions of present law relating to release and reapportionment would remain unchanged. But present provisions for the domestic allotment plan and export acreage would be discontinued.

The price support and subsidy provisions of the proposal are calculated to make cotton competitive. This would be accomplished by graduated annual stepdowns of 1 cent in price supports and 2 cents in mill payments over a 3-year period.

Price supports would be set at 29 cents for 1965, 28 cents for 1966, and 27 cents for 1967. (The USDA has already set the support at 29 cents for 1965 and thus has complied with the first step.) In 1968, and

thereafter, the support would be set at 90 percent of the average price received by farmers in the immediately preceding 3 years and would move up and down with changes in this average.

Coupled with this change in price support systems is a protection against the possibility that market prices might be beaten down, as has been true for other commodities, by the sale of CCC stocks. The price at which these stocks could be sold would be increased from 105 percent of the support price, plus charges, to 115 percent plus charges. Thus, market prices would be allowed to function.

The CHAIRMAN. One question. The bill that I introduced has the same support price as is in the 1958 law.

Mr. SHUMAN. Yes.

The CHAIRMAN. And I have added a provision to take care of the small growers, and that compensation would be in kind, and they would get the support price plus a direct payment in kind of up to 15 percent support price.

What criticism have you of that?

Mr. SHUMAN. Generally we feel that we are opposed to direct payments, and we also feel that differentials between any arbitrarily designed size of producer and another size is working in the wrong direction. I don't think that your proposals disturb us near as much as some of these other proposals. Jack calls my attention to the fact, and it is true, that our point 4 on page 39 is aimed at this matter of helping the small producer, who doesn't want to continue his production, and we would pay him for it in land rental payments. So there would be an element in this point 4 on page 39 of giving a special provision here for those who want to retire acreage.

Senator HOLLAND. That is not limited.

Mr. SHUMAN. No, that is right. This is to all of them.

Senator HOLLAND. This is just a retirement program.

Mr. SHUMAN. That is right.

Senator HOLLAND. Added to the other features of your retirement.

Mr. SHUMAN. It would be available to anyone regardless of size of production. However, chances are that the largest number of them would be the small acreage producers that would take advantage of it.

Senator HOLLAND. I think we should have this item 4 printed in the record again at this time so that we will know what we are talking about, Mr. Chairman. I ask that that be done.

The CHAIRMAN. Without objection that will be done.

(The item referred to follows:)

(4) That producers be provided an opportunity to release their entire allotment permanently in exchange for a retirement payment equal to 8 cents per pound times normal yield annually for a period of 3 years. Allotment acreage released under this provision could be used only for conservation purposes during the contract period, but would remain in the State and be available for reallocation at the end of the 3-year period.

Mr. SHUMAN. It is anticipated that with full implementation of this proposal, the average market price received by farmers would be above the support level beginning in the 1965 marketing year.

All of our proposals are made with the contemplation that market prices will take over, and we are confident that they would.

Senator HOLLAND. You not only want them to take over, but I sense in that sentence increase the receipts to the farmers.

Mr. SHUMAN. We think they will be better, that they will go up.

The CHAIRMAN. What will you do with the 13.4 million bales you have on hand August 1?

Mr. SHUMAN. We would provide that the Secretary could not sell this surplus until the price had reached the 115 percent of support level. That is the reason why we are saying in the case of cotton 115 in place of 125 as in feed grain, because of this rather serious situation, and we would expect that we would be able to sell—certainly we couldn't make any slower progress than we have under the present programs.

The CHAIRMAN. So, if the production of cotton is equal to consumption, the Government would be compelled to hold this 13.4 million bales for quite some time.

Mr. SHUMAN. It might take considerable time, but we have had it a long time already. Not that much, but we have had cotton a long time.

The CHAIRMAN. We had it down to 7 million bales just about 4 years ago.

Mr. SHUMAN. I think there would be a good prospect that we would be able to start pulling down before too long.

Senator HOLLAND. You mean by export sales alone?

Mr. SHUMAN. Yes.

The CHAIRMAN. Not unless you want to give it away.

Mr. COLLINS. We would also expect that production would be cut on whatever amount of signup there was under the point 4 provision which would bring total output below utilization.

The CHAIRMAN. Yes; but you would not reduce your minimum acreage. Your minimum acreage as I understand it would be 16.3.

Mr. COLLINS. Yes; but there would under our analysis be considerable signup of acreage into a permanent retirement program under this point 4 which would reduce output substantially.

The CHAIRMAN. You wouldn't be able to get that unless you paid them as much as they would make on the land if they planted the cotton.

Mr. SHUMAN. Yes.

The CHAIRMAN. That would be expensive.

Mr. SHUMAN. It is going to be fairly expensive to get some of this cotton land out anyway you take it.

Senator AIKEN. Would the allotments diverted for cash be deducted from the minimum acreage?

Mr. SHUMAN. In effect, yes; because for a 3-year period they couldn't be reallocated, and presumably by that time most of them would have decided they didn't want it continued, so in effect it would be deducted.

Senator HOLLAND. Payment for retirement of 8 cents a pound is a great deal less than we would have to pay for the amount reduced.

The CHAIRMAN. Do you think you could get it for that? I doubt it.

Senator HOLLAND. The question is whether the 8 cents a pound is as much as the profit made by the average producer. I wonder if Mr. Shuman would make a comment on that. The 8-cent land retirement provision would not be attractive.

Mr. Shuman. Yes.

Senator HOLLAND. Unless it would equal the amount of earnings, the amount of profits made from the operation, planting and operation of that particular cotton acreage. Do you think that the 8 cents

would equal or exceed the profit per pound made by many of the producers, particularly the small producers?

Mr. SHUMAN. I think it would because many of these folks have only been planting cotton every third year that they are required to, anyway, and so I am sure that many of them have already decided there are more profitable ways to use their land.

I think there would be a good response to this of those folks who are now seeking a way to move to something else. The capitalization of these allotments into the value of the land forces them to hang onto them even if they find alternate uses for the land that may be as attractive or more attractive.

Mr. COLLINS. I think it should be reemphasized that this on a national average would amount to about \$40 an acre in each of 3 years, or about \$120 in total for the 3-year period.

Senator HOLLAND. That figure is based on the production of one bale an acre, is that right?

Mr. COLLINS. The national average.

The CHAIRMAN. The national average is a little over that, about 517 pounds, I think.

Mr. SHUMAN. It is really coming up.

Senator HOLLAND. The figure is based on 500 pounds.

Mr. COLLINS. Yes.

The CHAIRMAN. Proceed.

Mr. SHUMAN. The formula for establishing support prices is completely automatic, leaving nothing to discretionary action or guesswork. At the end of each year the prices received for that year would be substituted in the formula and the new 3-year average would be computed.

The mill payment part of the plan to make cotton competitive would reduce the present 6½-cent-subsidy payment by 2 cents in 1965 and 1966 and terminate the payments with 1967.

The net result of the proposed changes in mill payments and price supports is that both textile mills and cotton producers would be contributing roughly 1 cent per pound per year for a period of 3 years, starting with the 1965 crop, toward getting to a truly one-price system.

Another important aspect of the proposal from the standpoint of cotton producer income is that provisions are made to further intensify research to reduce production costs.

This increased research effort should start to show significant results in the near future. We have recommended the appropriations of \$10 million for such research in fiscal 1966.

While the entire proposal is directed toward eliminating the unfair competitive position which foreign textile manufacturers have held over domestic manufacturers, provision is made to increase tariffs in case textile imports continue to cause problems.

Export markets recently have provided outlets for around a third of the cotton crop. During the late 1950's and early 1960's the percentage was somewhat higher. This provides a real basis for hope that, with more competitive prices assisted by reasonable export subsidies, cotton exports can be increased by a million bales or more, from the recent levels of 4.5 to 5.5 million bales. The Farm Bureau plan proposes to continue present provisions for export subsidized as necessary to reestablish strong export markets.

The Farm Bureau plan not only proposes to continue the present minimum allotment of 16 million acres but provides for increasing it as much and as fast as market growth will justify.

A cotton program such as proposed by Farm Bureau would set market-strengthening forces in motion at once and lead to substantial market expansion over the next few years. This, coupled with the reduction in output to be expected from the allotment reduction plan, means that within the near future the national allotment can safely be increased from the present level.

We sincerely hope that the Congress will give favorable consideration to these recommendations. If we attempt to put another patch on the present patchwork cotton program—as suggested by the USDA—we will be contributing to the further destruction of the industry. The time has come to face the facts and take the action that is required to save the cotton industry.

TRANSFER OF ALLOTMENTS

Our appraisal of title VI of S. 1702, transfer of farm crop allotments: Title VI of the administration's bill gives the Secretary of Agriculture broad discretionary authority to permit the transfer of acreage allotments and similar rights to produce commodities covered by supply-management programs—

if he determines that it will not impair the effective operation of the program involved.

Under such authority the Secretary, in effect, would be authorized to spell out the conditions under which allotments could be transferred to change these conditions from time to time. He would be authorized to adjust the size of an allotment that is transferred to a farm with a substantially higher yield per acre and also to set—

reasonable limits on the size of the resulting allotments on farms to which transfers are made.

In addition, the Secretary apparently would have authority to:

- (1) Restrict transfers to farms within the same county, as well as to permit them on a statewide basis;
- (2) Permit transfers for some commodities while refusing to permit them for others;
- (3) Permit transfers in some years, and prohibit them in others;
- (4) Establish qualifications that must be met by any individual desiring to obtain an allotment by purchase or lease;
- (5) Limit the amount of allotments that may be purchased or leased by any producers;
- (6) Restrict transfers to allotments of less than a specified size.

Thus, title VI would give the Secretary of Agriculture great power which could be used to guide the redistribution of rights to produce controlled crops along whatever lines he thinks best. We do not think it wise for the Congress to give the Secretary such sweeping authority.

Legislation to permit the transfer of allotments by sale, lease, or other means would be beneficial to farmers who want to get out of the production of allotment crops, but it would be harmful to young farmers who are just getting started and to those who need to expand their operations. In effect, farmers who are going out of production could collect a form of severance pay by selling their allotments, but

the bill would be paid by others who are struggling to enter or stay in farming. We think this is a very bad proposal and we are opposed to it.

The enactment of authority for the sale or lease of allotments would destroy the popular release and reapportionment feature of the present cotton law and increase production costs for producers who have been receiving released acres.

The proposed legislation would increase the present tendency for the value of allotments to be capitalized. Since an allotment is worth more to the producer who has highly productive land, there would be a tendency for (1) farmers with productive land to buy allotments from less productive areas and (2) the price of allotments to reflect the value of the program to operators with the most productive land. It is unlikely that this tendency would be completely offset by the proposed authority to permit adjustments in size where allotments are transferred to land that has a substantially higher yield.

Such legislation would also tend to reduce underplanting and thus to increase the volume that would be marketed under any given national allotment. The probable result in future years would be more restrictive national allotments, an increase in the number of farmers who need to acquire additional allotments in order to stay in business, and higher prices for the transfer of individual allotments.

The gains accruing to farmers who wish to sell or lease allotments would lead to higher production costs for the farmers who wish to continue to produce allotment crops.

Farm Bureau is opposed to any proposal that would permit the sale or lease of allotments.

DAIRY PRODUCTS

Our appraisal of the dairy price support program: We appeared and presented statements on dairy price supports.

The year 1965, 32d anniversary of the first purchase of dairy products by our Government for price support purposes. Such purchases were made each year from 1933 until Pearl Harbor. The present Federal program to support prices of manufacturing milk and cream has operated for about 15 years.

Under present law, the Secretary of Agriculture must support prices of milk and butterfat at a level between 95 and 90 percent of parity that will assure an adequate supply of milk. Support for farm prices is provided indirectly through Government purchases of butter, cheddar cheese, and nonfat dry milk. Prior to World War II, purchases of evaporated milk also were made for the purpose of supporting farm prices.

Included as a part of this statement are those charts that show graphically how milk production and consumption, price support program purchases and costs, and support prices and actual market prices have been related during the last 12 program years.

What has been learned? Here are several facts on which the record is quite clear: When the dairy price support level has been relatively high it has (1) stimulated increased production of milk nationally, (2) acted as a ceiling price for manufacturing milk, (3) necessitated large purchases and expenditures by the Federal Government for price support purposes, and (4) led to higher retail prices and reduced consumption.

When the price support level was reduced on April 1, 1962, substantial improvement in the national supply-demand situation resulted.

About 9 percent of the national production of milkfat and nearly 12 percent of the milk solids-not-fat were purchased in the 1961-62 program year. In 1962-63, the fat purchases declined to 7 percent while purchases of solids-not-fat equaled the 1961-62 record. In 1963-64, purchases of fat declined to 6 percent and solids-not-fat declined to 8½ percent of national production. Further reductions in these percentages are anticipated during the current program year.

In the 1964-65 program year, purchases of butter declined 34 percent (from 318.9 to 209.2 million pounds), and purchases of nonfat dry milk declined 24 percent (from 953.89 to 727 million pounds), while purchases of cheese rose 19 percent (from 121.8 to 145.1 million pounds).

The annual net loss under the price-support program reached an alltime high of \$530 million in the 1962 fiscal year. This amount was nearly four times as great as the average for the 3 fiscal years immediately preceding. The net loss in fiscal 1963 was \$440 million, in fiscal 1964 it was \$292 million, and for the current fiscal year a still smaller loss is indicated.

It should be noted that some of the decrease in price-support purchases during the 1963-64 program year was due to larger exports of butter and nonfat dry milk under the payment-in-kind program. As a means of developing long-term overseas commercial markets for dairy foods, we recommend that such export payments apply to all dairy food exports rather than only to commodities acquired under the price-support program.

Progress has been made with respect to farm prices as well as Federal price-support program operations. The average farm price of all milk at wholesale on January 15, 1965, was 7 cents per hundredweight above a year ago and 17 cents above 2 years ago.

Senator AIKEN. You would say supply and demand are pretty well in balance right now except for seasonal variations?

Mr. SHUMAN. Yes, sir.

Senator AIKEN. Which throws the price out of line?

Mr. SHUMAN. A great deal of progress has been made by the dairy-men in this country in bringing the production into balance with the need.

The CHAIRMAN. The cost has been very great, Mr. Shuman, as you know. In fiscal 1964 the cost to the Government was \$746.5 million overall.

Mr. SHUMAN. That is right. We point out, however, that this cost has been coming down during the last few years.

The CHAIRMAN. I have been hearing that for quite some time, but it fluctuates as you say. It has never been under \$400 million.

Mr. SHUMAN. The purchases in 1964-65 declined 34 percent and nondry milk went down 24 percent—Commodity Credit purchases. Cheese did go up 19 percent but the net result was a decline in the purchases.

The farm price of manufacturing-grade milk was 6 cents per hundredweight above a year ago and 13 cents above 2 years ago.

The production of milk nationally was below year-earlier levels in every month of 1963. In 1964, it rose about 11¼ percent and set a new

record high, but the increase was due to the extra day in a leap year and primarily to depressed beef prices. Dairymen did not cull their herds as much as they would have done if beef prices had not been relatively low. The average price of a milk cow in each of the last 7 months of 1964 was below the prices in the corresponding months of each of the 6 years immediately preceding.

These developments demonstrate once again that progress toward a balance of farm supply and commercial demand of milk can be made under the present price-support program. A drastic revision is not required. Instead of a serious problem, there is an opportunity to improve and modernize the basis for calculating dairy price-support levels.

Voting delegates at the last annual meeting of the American Farm Bureau Federation restated their belief that the basis for price supports on manufactured dairy products should be shifted in an orderly manner from a percentage of "parity" to a percentage of average market prices.

On March 20, 1963, we appeared before this committee and outlined in some detail how the proposed change could be expected to affect support prices and market prices for a period of several years. We also pointed out that a market-related dairy price-support program based on our proposal would have many benefits and advantages over the present program or alternative programs that have been submitted to Congress. Since our proposal is a matter of record, we will not take time to restate it now.

Our appraisal of the Federal milk order program and the class I base plan: Operations under the Federal milk marketing order program have some bearing on the national dairy problem. While the order program technically is not concerned with price-support objectives and operations, it does establish minimum farm prices for one-half of all milk sold from farms in the United States.

When these minimum prices or other order provisions result in large market surpluses, the excess quantities of milk are diverted to manufacturing uses. This means direct competition with manufacturing-grade milk, the principal kind of milk directly involved in the price-support program.

In 1964, about 54 billion pounds of milk were priced under Federal orders. Of this quantity, nearly 34 billion pounds were used in class I, the class designation customarily accorded to milk sold by dealers as fluid milk and cream. The remainder—over 20 billion pounds—was allotted to lower priced use classes.

The problem of price-depressing surpluses on some Federal order markets has led to various proposals for what is referred to as the class I base plan.

Farm Bureau's current national policy on Federal orders states, in part:

Acceptance of Federal marketing orders by farmers has been due to their application on a local or regional basis and to the fact that they have not been used to control production. We oppose the use of Federal marketing orders on a nationwide basis.

We oppose attempts to alter the present Federal marketing order legislation to permit direct control of agricultural production by the use of individual producer allotments or quotas based on production units. Among such proposals is the class I base plan for Federal milk orders. We favor nongovernmental industry

programs, voluntarily adopted by individual producers or groups of producers, designed to reduce seasonal or annual surpluses of milk in an economically sound manner.

Senator HOLLAND. You favor the existing Federal marketing order legislation?

Mr. SHUMAN. Yes, sir; and we are opposed to the class I base plan proposal.

The CHAIRMAN. Mr. Shuman, you are familiar with the enactment of the milk program years ago. As I recall, it was the intention of Congress to provide a high price for the farmer who produced milk under sanitary conditions and sold as class I a rather good price.

Mr. SHUMAN. Yes.

The CHAIRMAN. So that milk for direct consumption would be pure, clean, and so forth. But here in the last 10 years they have gone to this blended price. You are not for that, are you?

Mr. SHUMAN. On the blended price, I can't say "Yes" or "No" because we have been in support of the Federal market order program, and there are two kinds of orders, as you know. There is a handler pool and the marketwide pool.

Now, the blended price approach is a decision, as I understand it, within the marketwide pool, and I think that the individual handler pool had better results generally than the marketwide pool. We are in general support of both, but we think that the individual markets ought to decide which kind of operation that they use.

The CHAIRMAN. Will you apply that generally all over the country?

Mr. SHUMAN. Yes.

The CHAIRMAN. Each market—that is, area—take around Chicago, 39 percent of the milk produced is sold for direct consumption and the rest of it is used to make cheese and butter and dried milk and Uncle Sam is the chief customer.

Mr. SHUMAN. Actually, under the milk order programs there has been a tendency, of course, to stimulate increased production, and that means more of it has to be sold for manufacturing use within the orders. This has been a trend.

The CHAIRMAN. As to the milk that is to be manufactured into butter, cheese, and so forth, it would seem to me that the support price should be applied to that, and let the class I milk be sold at a better price because of the additional cost of producing that for direct consumption. That was really and truly the intention, as I understand it, of the law that we now have on the statute books. But somehow we have veered away from that.

Mr. SHUMAN. I think that our conclusion is the same as you are pointing to, and that is that we would prefer to try to improve the operation of the present legislation, the Federal order system, rather than to go the route which we think the class I base plan would do of a national order almost inevitably, or trying to institute controls on production under a program which wasn't designed to increase production, but which was designed to improve quality and to bring about improvement in the marketing.

This policy, adopted by the voting delegates to our last annual meeting, clearly expresses opposition to incorporation of a class I base plan into any Federal milk order.

Some proponents of the class I base plan argue that it would do no more than extend the lives of existing seasonal pricing plans in order to permit each of them to operate for more than 1 year. This is a pitfall for the unwary. All seasonal pricing plans now operate for more than 1 year at a time; their lifetimes are indefinite and they do not have to be renewed annually. Only the individual producers' bases change from year to year.

A seasonal pricing plan is a form of pooling. It provides an incentive or reward to the producer who tailors his seasonal pattern of marketings to the varying requirements of the market. It penalizes the producer who does not tailor his supply to the demands. Since all four seasons are included in a 12-month period, a seasonal pricing plan automatically concludes a cycle each year. Any attempt to introduce "fixed bases," that do not change from year to year, is an attempt to divide a market among the producers supplying it during some historical period, to preserve those shares indefinitely, and thus to give the favored producers economic "rights" to the market. This would be a highly undesirable objective for the Federal milk order program and it would differ greatly from that of a seasonal pricing plan.

Another problem area involves the degree to which individual producers would have a choice of alternatives under the plan. Some proponents have said that in a market in which the proposed class I base plan was in effect the individual producer could choose to accept a quota or could continue to ship unlimited quantities of milk for which his blend price would be calculated in the manner now customary. There is, however, a definite possibility that dairymen would be offered no reasonable alternative to stringent production controls if the plan became law.

Thus the opportunities for local or individual option envisioned by some proponents may not exist at all and certainly would be difficult to guarantee. There is no assurance whatsoever that the administrative rules established by the Secretary would be sufficiently flexible to allow producers in any market to choose the provisions they preferred or, in fact, to have much influence in determining any part of the proposal on which they would vote.

Many dairy farmers in Federal milk marketing areas assume that if this plan were enacted they would reduce the size of their herds to a point at which they would receive the class I price for all milk produced. This would not be the case. The truth is that this could happen only if all milk for a given plant or area were used as class I—and this would rarely, if ever, occur. Farmers would still be paid a blend price if this bill became law.

Farm Bureau opposes the class I base plan because of the illusory nature of these supposed "benefits" and because:

(1) The implied assumption that each fluid milk market is sufficient unto itself and completely independent of all similar markets is unrealistic and unsound. There is a great deal of overlapping of market supply and sales areas and intermarket movement of milk.

If the plan were developed and operated in a market area in such a manner as actually to raise the blend price in that area, the increase in price would result in an increase in receipts of milk from new sources of supply. As a consequence, a choice would have to be made

among three undesirable alternatives: (a) The producers who voted in the plan, and reduced their production accordingly, would have to accept sharply reduced net incomes as the increased supply dropped the blend price to near its original level and the market had to be shared among a greater number of producers; (b) an economic "wall" of trade barriers would have to be built around the market to shut out new sources of supply, or (c) the order would have to be expanded, area by area, to a nationwide basis in order to regulate all dairymen in all supply areas.

(2) The plan is designed to preserve local markets for those farmers shipping milk during some historical period. This would inevitably mean pressure to create or preserve local monopolies, by means of Federal authority, and to raise trade barriers to keep out milk from other areas—even if there were no increase in blend prices.

The plan inevitably would lead to severe restrictions on entry of new producers. We believe in reasonable competition in all areas of our economy, and in the right of new producers—particularly young people—to have an opportunity to engage in dairy farming if they so desire, without having to buy a base or to earn one by selling milk on a surplus basis for a period of time.

(3) At first, many farmers might cut their milk production because (it is presumed) they would receive the lowest class prices for all milk delivered in excess of their individual quotas. If the farm price for fluid uses remained unchanged, the average farmer's gross income would drop when he cut his milk production. His "fixed" costs of production would continue whether or not he produced excess milk. This would cause a decline in net income of most dairymen, resulting in pressure for higher class I prices that would reduce consumption, intensify competition from "new" or "outside" producers, and widen the spread between prices for fluid and manufacturing uses.

(4) It is assumed by some proponents of the plan that it always is unprofitable for any grade A producers to sell any part of his milk at surplus prices. This assumption is incorrect. For many dairymen, it is profitable to increase production of surplus milk by increasing output per cow. The cost of producing the additional milk is quite low per 100 pounds.

The fact—plus the inevitable loopholes in the program—means that the surplus-reducing effects of the proposal would not be extensive.

(5) The Secretary of Agriculture would determine whether—and under what conditions—quotas would be transferable. If quotas were negotiable, this could stimulate corporation farming because of the advantage large corporations would have in terms of capital available for new investments, thus working to the detriment of family owned and operated farms. If quotas were not transferable under any conditions, current farming operations would be frozen. The situation would deteriorate further if one order market had a plan with negotiable quotas and a nearby market had a plan with nontransferable quotas.

(6) The plan sometimes is described as a means of providing a form of "severance pay" for dairy farmers who wish to retire. Artificial windfall profits for those who left the industry would become an added cost of business for those who remained or who wished to enter it.

(7) Although there might not be a provision for lowering the prices charged dealers for surplus milk, each farmer shipping milk in excess of his quota would receive the lowest class price for that excess milk. This would tend to create a situation in which milk for manufacturing was considered to be worth very little. Psychologically, dealers might discount the value of such milk and, as a result, tend to buy nonorder milk for manufacturing at prices slightly lower than would otherwise prevail.

Thus the plan not only fails to recognize the problems of producers of manufacturing-grade milk but also would create new problems for them.

(8) We believe the Congress should help farmers to move toward the private, competitive enterprise marketing system in agricultural production and marketing and away from unnecessary governmental regulation. This proposal would be a long step in the wrong direction.

There is still another and very important feature of the class I base plan that has not been fully recognized by many farmers and others.

Much of the support for the bill is definitely negative in character. In effect, the position of some persons in some fluid milk markets may be expressed as follows: "We don't want the plan in our market, but we think anyone who wants to try it should be permitted to do so."

This is a generous but, unfortunately, nearsighted position. If the law is amended, and the plan is adopted in a few markets, when the plan fails in those markets pressure will mount to establish rigid production controls in all fluid milk markets and in manufacturing-grade milk production areas as well.

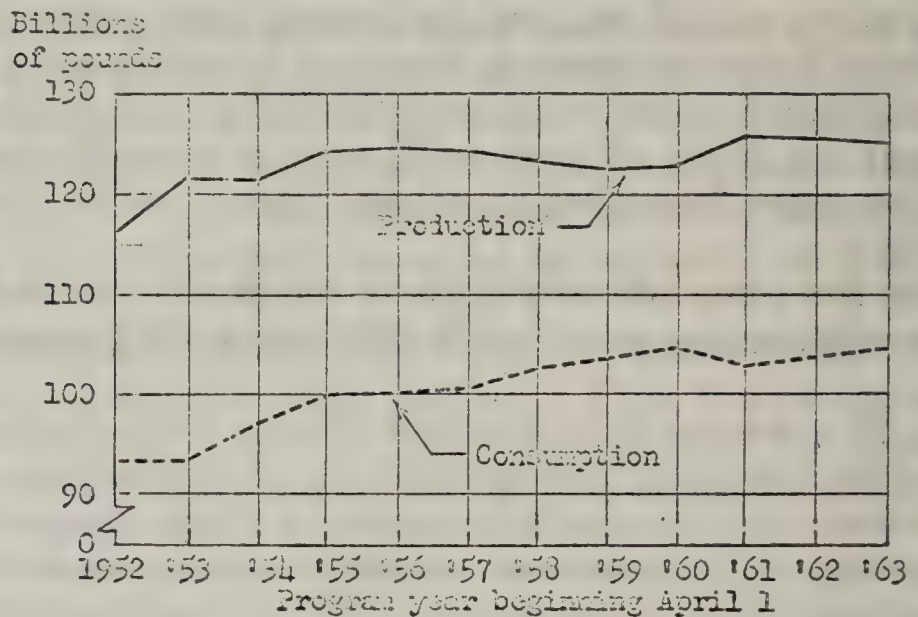
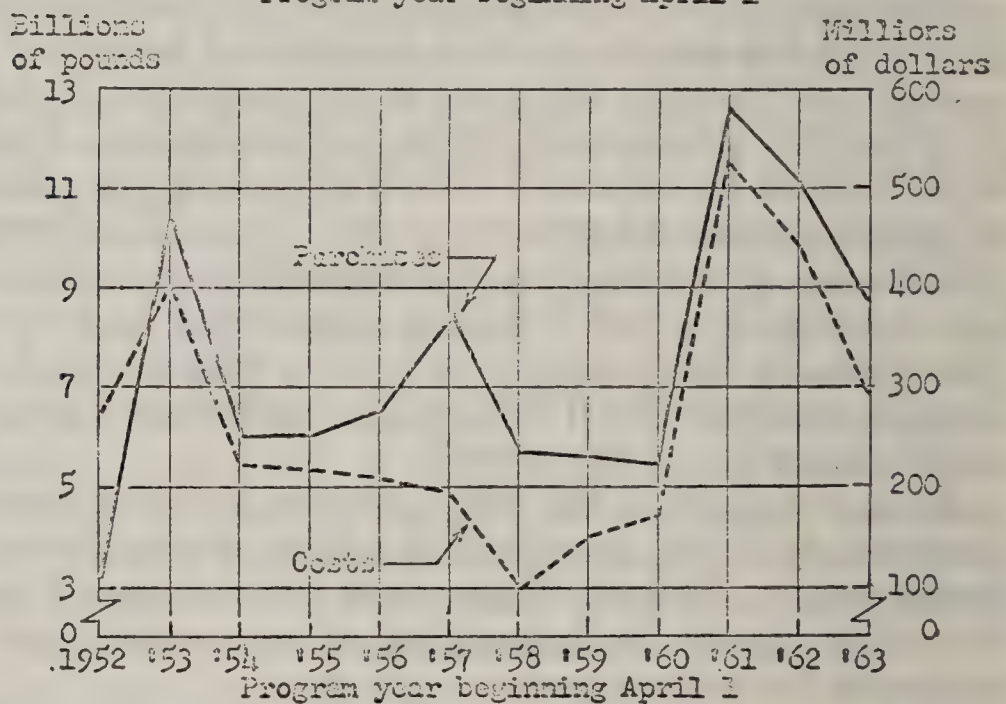
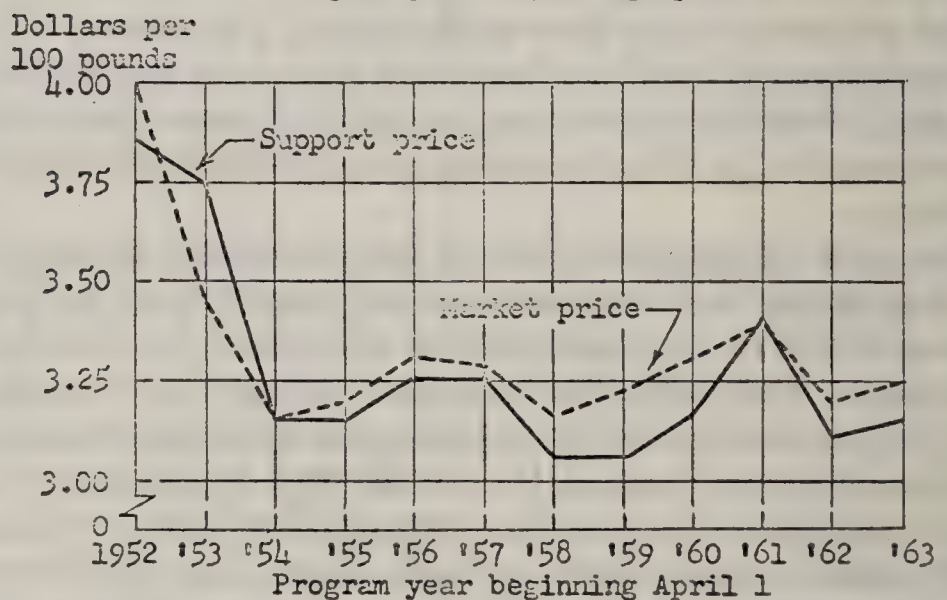
As noted earlier, the bill provides for termination of a class I base program without termination of an entire order. This provision is inadequate. History shows that the failure of one regulation almost inevitably leads to imposition of more stringent regulations—not a return to less regulation.

Our recommendations on the dairy program: We believe that present laws providing for the dairy price support program and the Federal milk marketing order program are adequate to permit a gradual improvement in the national supply-demand situation for the dairy industry.

The rate of progress could be increased through improvements in Federal order pricing and pooling techniques and through legislation to provide for market-related supports in the dairy price support program. Farm Bureau's price support proposal, supplemented by many other activities by farmers or by Government, could provide an effective and economically sound way to improve the dairy situation and to increase the net incomes of the Nation's dairy farmers.

We have some charts which show the developments under dairy price support program. It shows that production has tended to level off, that consumption is still tending upward, not as good as we would like, but that support purchases have fluctuated as the chairman has pointed out, but that the last 2 years have tended downward.

(The information referred to follows:)

DEVELOPMENTS UNDER DAIRY PRICE SUPPORT PROGRAM --
LAST 12 YEARSMILK PRODUCTION
AND CONSUMPTIONPRICE SUPPORT PROGRAM
PURCHASES AND COSTSSUPPORT PRICES AND
MARKET PRICES

Senator AIKEN. I think, Mr. Chairman, the latest reports on the dairy situation show that the consumption of fluid milk is about 2.2 percent above last year, and that the production of all milk is slightly under last year, so that indicates the progress that is being made.

Mr. SHUMAN. We think so.

The CHAIRMAN. I hope it is permanent.

Senator AIKEN. I do, too.

Mr. SHUMAN. We hope so, too.

Page 54 gives the data used in preparing charts.

(Page 54 follows:)

DATA USED IN PREPARING CHARTS

MILK PRODUCTION AND CONSUMPTION

Production.—Total, United States.

Consumption.—Total civilian from commercial sources; milk equivalent, fat solids basis; calendar year data adjusted to approximate figures for program years; United States.

PRICE SUPPORT PROGRAM PURCHASES AND COSTS

Purchases.—Total pounds by Federal Government for price support and related programs, excluding transfers to military and veterans' hospitals, school lunch, and special milk programs; milk equivalent, based on total solids and relative values; United States.

Costs.—CCC purchase and handling costs less proceeds from sales, fiscal years, United States.

SUPPORT PRICES AND MARKET PRICES

Farm support price.—For manufacturing milk of national average milkfat test, annual average for program year calculated as unweighted average of support prices prevailing in each month or portion thereof, United States.

Farm market price.—Unweighted average price actually received by farmers for milk used in manufacturing, of national average milkfat test, United States.

Source of basic data: Official publications of U.S. Department of Agriculture.

WOOL

Mr. SHUMAN. Our appraisal of the Wool Act: It will be recalled that Farm Bureau supported the Wool Act of 1954 but opposed implementation of section 708, a discretionary provision designed to provide a means of obtaining funds for promotion of lamb and wool through compulsory deductions from the producers' incentive payments. We are not opposed to promotion, which we recognize as being badly needed, but rather to the manner in which such funds are collected under section 708.

The major objective of the Wool Act of 1954 was to increase production of shorn grease wool to 300 million pounds annually through an incentive payment program. The evidence is clear that this objective has not been achieved as the 1964 production of wool was the smallest since 1954. Government estimates for 1965 indicate a further reduction. (See table I on p. 58.)

Incentive payments to producers have averaged approximately \$50 million annually. Deductions from incentive payments of 1 cent per pound for promotion have averaged nearly \$3 million annually. In spite of these large incentive payments and rather heavy expenditures for promotion, the sheep and wool industry has continued to decline and the prices of wool and lambs have shown little or no improvement. (See table II on p. 58.)

Farm Bureau has recognized for some time that the Wool Act of 1954, as amended, is neither a sound nor an effective solution to the problems of sheep and wool producers.

In order to develop a more satisfactory program, Farm Bureau took leadership in encouraging the University of Wyoming to conduct two sheep and wool industry conferences. The first such conference was held at Laramie, Wyo., in August 1960, and the second a year later. The American Farm Bureau Federation and more than 20 sheep and wool industry organizations cosponsored these conferences in the hope that they would result in an objective analysis of the

problems of this industry and the development of plans, which all segments of the industry could support, to improve the income of the producers of sheep and wool.

One of the recommendations resulting from these conferences called for the establishment of an industrywide committee with two subcommittees—one for wool and one for lamb. Such a committee was established, along with subcommittees, under the leadership of the National Wool Growers Association with representation from all major industry organizations. Each member organization was urged to develop suggestions for a national program.

In order that the American Farm Bureau Federation might make a sound contribution to the work of the industry committees, we called special conferences of the Farm Bureau leaders and several representatives of land-grant colleges and the USDA to consider the problem. As a result of these efforts, an eight-point program was developed to improve quality, produce for the market, use imports to advantage, increase producers' bargaining power, increase efficiency to make lambs and wool competitive, promote needed research, encourage educational programs, and support effective promotion.

This eight-point program has been widely accepted by other industry groups. Many of the suggestions embodied in our program have been incorporated in industrywide programs for wool and for lamb unanimously adopted by the industry committee at Albuquerque, N. Mex., in January 1964. These are excellent programs and provide opportunity for all interested groups to participate. The problem now is to implement these programs on all fronts.

Our appraisal of title IV of S. 1702: Title IV of S. 1702 would extend the National Wool Act from March 31, 1966, to December 31, 1967, with amendments to substitute general language for the present national production goal of 300 million pounds and to establish three graduated levels of price support. The proposal for graduated levels of support completely ignores the nature of the sheep and wool industry.

Small flocks are largely found in the general farming areas where producers generally get the bulk of their farm income from other enterprises.

Most large flocks are found in range areas, where alternatives are limited and small flocks are uneconomic.

Thus, the proposed graduation in support levels would penalize the producers who are most dependent on wool for their livelihood.

One of the principal reasons Farm Bureau has opposed compensatory payments is that by their nature, they must ultimately lead to either differentials in rates of payments to producers or total limitation on the dollar value of payments to producers. The steps taken to place rice and wool under such a payment scheme indicate that the proponents of this bill are moving swiftly in that direction.

Our recommendations on wool: Delegates to the Farm Bureau annual meeting last December gave careful consideration to the question of extending the National Wool Act of 1954 and the efforts put forth by Farm Bureau and other groups in developing an industry-wide program. As a result of this, the following policy statement was adopted:

The National Wool Act was enacted in 1954 to stimulate an increase in production to a specified goal of 300 million pounds annually. This payment program was predicated on the following special considerations:

(1) The annual production of wool in the United States is not sufficient to meet domestic needs even in peacetime.

(2) Congress has declared wool a strategic commodity and has determined that an annual production of 300 million pounds is essential for national security.

In recent years wool production has gone down, imports have gone up, and the use of synthetics has continued to increase. The ease with which promotional funds can be raised by the automatic checkoff, authorized by section 707 of the Wool Act, invites wasteful expenditures.

Farm Bureau has cooperated with other interested groups in the development of an industrywide program to improve the income of sheep and wool producers and has accepted a responsibility to implement this program. In order to provide time for this program to become effective, we support a 2-year extension of the present Wool Act.

We trust that this review of the Wool Act of 1954 and the industry efforts to develop a sound program will be helpful to this committee. We support a 2-year extension of the present act to provide time for these industry efforts to become effective; however, we strongly urge that the proposal to base the support level on the quantity marketed be deleted.

We are in support of the Wool Act for a 2-year extension. We are opposed to the proposal of a differential payment to the producers of the smaller quantity of wool.

The CHAIRMAN. Those are direct payments.

Mr. SHUMAN. Yes.

The CHAIRMAN. You seem to make a difference between wool and other commodities.

Mr. SHUMAN. Well, there is a difference between wool and other commodities, and quite an important difference.

Senator HOLLAND. You mean it is a deficit crop.

Mr. SHUMAN. Yes; it is a deficit crop rather than a surplus crop.

I think that we would like to find a better way to solve the wool-growers problems than the present programs, but we haven't any improved plan to offer, so we are supporting a 2-year extension. But we are opposed to the administration proposal of the differential price for wool producers.

(The tables referred to follow:)

TABLE I

[Million pounds]

	U.S. production of shorn wool (grease basis)	Imports of dutiable wool (clean content)	U.S. mill consumption	
			Apparel wool (clean content)	Woollike synthetics
1954-----	235.8	103.9	269.6	328.6
1956-----	242.2	103.8	296.7	484.1
1958-----	243.7	67.1	212.0	575.2
1960-----	265.5	74.3	246.4	761.7
1961-----	261.2	90.3	263.1	861.7
1962-----	249.1	125.8	280.2	1,076.6
1963-----	238.2	109.2	251.3	1,261.4
1964-----	221.9	90-95.0	234.0	1,513.7
1965 estimate-----	215.0	115-120.0	255-260.0	-----

TABLE II

	Wool Act payments year beginning Apr. 1 (millions)	Stock sheep numbers, Jan 1, (1,000 head)	U.S. farm prices, (cents per pound)	
			Wool	Lambs
1954-----		27,079	53.2	19.1
1956-----	\$51.9	26,890	44.3	18.5
1958-----	85.1	27,167	36.4	21.0
1960-----	59.5	28,849	42.0	17.9
1961-----	56.9	28,571	42.9	15.8
1962-----	40.0	27,065	47.7	17.8
1963-----	¹ 27.2	25,731	48.5	18.1
1964-----	² 28.4	24,348	53.2	19.9
1965-----		23,341	-----	-----

¹ Payments on wool sales for the period Apr. 1, 1963, to Dec. 31, 1963.

² Estimated payments on wool sales during the calendar year 1964.

TABLE III.—Parity prices, Jan. 15, 1965, with comparisons

	Wool		Mohair	
	December, 1964	January, 1965	December, 1964	January, 1965
110 percent of parity-----	87.5	90.0	118.8	123.8
100 percent of parity-----	79.5	81.8	108.0	112.5
77 percent of parity-----	61.2	63.0	83.2	86.6
1964 support price:				
Cents-----	62		72	
Percent of Jan. 15, 1964, parity-----	78		67	
1965 support price:				
Cents-----	62		72	
Percent of Jan. 15, 1965, parity-----	76		64	

Mr. SHUMAN. We appreciate the opportunity to present our views and recommendations on the various programs and proposals which are the subject of this hearing. We have tried to be constructive, and we hope that you will consider each of our recommendations on its merits.

Senator HOLLAND. I am sorry I could not be here for the earlier part of your appearance, but I have listened to the last two-thirds of your presentation. It seems to me that your presentation illustrates the advice and the proposed approach that I have noted in so much farm legislation in recent years, that is because of the omnibus

character of this bill. You, for instance, support the extension of the present wool program, though somewhat reluctantly. You oppose vigorously the extension of other programs and you deal with them as they should be dealt with, each on the merits of the particular program, at least as you see it.

Do you have any comments to make on this omnibus approach, and the fact that it leaves every Senator, every Representative, every interested person in the position of having to balance the vices that he finds in the bill against any good points that he finds there, and try to vote on that basis rather than on the merit of each particular program which affects individually thousands of people either favorably or unfavorably?

Mr. SHUMAN. I deplore it very greatly because it shows exactly what you are saying. Each commodity has a different set of problems, and with the complicated legislative structure that we have in agriculture, it is almost impossible to act in an omnibus approach way without making trades for undesirable things with desirable things. It is the wrong approach.

The CHAIRMAN. In other words, back scratching.

Mr. SHUMAN. Yes.

Senator HOLLAND. As I understand the pending bill, does not it cover all of the basics plus dairy, plus wool?

Mr. SHUMAN. Yes.

Senator HOLLAND. And thereby include everything other than tobacco and peanuts among the bases?

Mr. SHUMAN. That is right.

Senator HOLLAND. And it leaves each individual in the position of trying to balance off the good in one program against the evil in other programs?

Mr. SHUMAN. That is right.

Senator HOLLAND. Mr. Chairman, you remember that I have frequently opposed this method of approach, and I certainly think that this pending bill is as clear an example of the evils in such an approach as we could possibly have, and I think that Mr. Shuman's testimony makes it clear that even in his appraisal, not just as one man but as the head of an important organization, he has clearly approved part of the program, disapproved other portions, as to other commodities, and for different reasons shows the vice of such an omnibus approach. It seems to me that that is one of the major considerations that we have got to face in considering such legislation.

The CHAIRMAN. We will take that up in executive session.

We want to thank you, Mr. Shuman, for your presence.

Mr. SHUMAN. Thank you.

The CHAIRMAN. We regret that we did not have more here.

Mr. SHUMAN. I am honored by the ones who were here, and I appreciate it very much.

(Whereupon, at 4:25 p.m., the committee adjourned, to reconvene at 10 a.m., Monday, June 21, 1965.)

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are some of the most beautiful scenery in the world
and with the rugged mountains in the background
it is almost impossible to get in a

FOOD AND AGRICULTURE ACT OF 1965

MONDAY, JUNE 21, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room 324, Old Senate Office Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender, Holland, Jordan of North Carolina, Mondale, Russell of South Carolina, Aiken, and Young of North Dakota, Cooper and Boggs.

The CHAIRMAN. The committee will please come to order.

We shall continue our hearing on all bills before us and such others as may be introduced in the Congress before we complete these hearings. As most of you know, most of the basic commodities come up for renewal action this year. We have today before us Mr. Harry L. Graham, legislative representative of the National Grange. Mr. Graham, the stage is yours. You may proceed, and tell us what to do—how to handle this matter.

STATEMENT OF HARRY L. GRAHAM, LEGISLATIVE REPRESENTATIVE, NATIONAL GRANGE

Mr. GRAHAM. Thank you, sir—Mr. Chairman and members of the committee, I am Harry L. Graham, legislative representative of the National Grange.

GENERAL

The hearings which are being conducted today constitute one of the most important efforts by Congress to deal effectively with the persistent problems of American agriculture since the hearings held in 1938. There are nine specific bills before your committee. The printing of them is contained in about 125 pages. They affect every segment of our economy, agriculture, labor, and industrial, as well as the great segment that includes all of these—the consumers. Decisions to be made on the basis of these legislative proposals could affect farm income by as much as \$1,000 per farmer. We are convinced that the decisions cannot be made hastily, nor can the problems and the relevant factors be discussed hastily. We are aware, however, of the time compulsion on the part of this committee and we want to cooperate with the committee by presenting at this time a very condensed statement relative to this legislation and ask for the privilege of submitting for the record a more lengthy, but at the same time, exhaustive study of the factors which are connected to these legislative proposals.

We believe that no man's judgment is better than his facts, and we are certain that many statements and representations made concerning the legislation now on the books and that which is proposed in the bills before this committee are inaccurate. We are also convinced that some of this inaccuracy is the result of deliberate attempts to mislead those who form public policy, as well as the public itself. These are the subjects of the longer study we want to place in your hands within the next few days. We believe the study will be helpful to you and members of your staff in their effort to arrive at a solution to some of these very perplexing problems—a solution based on fact and not fiction.

The problem facing American farmers is one of inadequate income. This is not only the result of low prices, it is also the result of an inequitable return for the economic factors of production. The persistent continuation of a situation in which agriculture receives for its labor, management, risk, and investment a return of about 75 percent of that which would be received for these same factors in any other segment of our economy is unfair to the farmer and detrimental to the best interests of the Nation.

The development of a dual economic system is closely interrelated with national and international policy concerning the production, sale, and use of food for cash sales, international development, and relief purposes. They are closely related to the necessity for expanding markets for American agricultural products and lowering the barriers of international trade. The outcome of the critical talks going on now in the GATT may be greatly influenced by the action of this committee. The GATT decisions will also be of importance to the future of the American agriculture.

Much has been said concerning the cost of agricultural programs. We will grant that the cost has been substantial but it has not been a critical factor in our economy. Indeed, a real point can be made that the programs have cost too little and that the resulting loss of agricultural income has been a major contributing factor in the persistent lag of our American economy and the persistent high level of unemployment.

Food remains the greatest bargain available for the American consumer. The cost of the food program, whether in the marketplace or to the taxpayers, has not been excessive. Instead it has been at the lowest point in all recorded history and the quality and quantity of the food has been at its highest level. Any suggestion that is made in this legislation to increase the cost to either the taxpayer or consumer in the modest amounts being discussed should not need any defense if it were not for the fact that those interested in the related industries are trying to use agriculture as a scapegoat for their own selfish policies.

We are prepared to discuss this problem at any length the committee may desire.

CCC RESALE PRICE

Suggestions that farm income could be raised by an increase in the release price for CCC stocks do not impress us. In general, such suggestions are to be seriously considered only as a means of improving the income of the elevators which were at 31 percent of capacity on

March 31, 1965, or to increase the range of speculation and, therefore, improve the prospects of a higher income for those making their living from buying and selling agricultural commodities.

In the judgment of the Grange any increase in this resale level would: (1) slow down or reverse the progress made toward the reduction of surplus agricultural commodities in the hands of the Government; (2) increase the storage costs of CCC; (3) increase the cost of the export subsidy program; (4) lower the income of the family farmer because within the present budget provision these increased costs could only be absorbed by a decrease in the loan level for the commodities; (5) seriously and adversely affect our international trade; (6) increase the cost of feed to all those producing meat, poultry, and dairy products without channeling such increases to the producer of the grains for the feeds; (7) serve to increase the instability of the markets for beef and pork products—a stability that has been obtained at great cost to producers and consumers; (8) adversely affect the acceptability of the voluntary program by placing an umbrella over the noncomplier at an unreasonably and unrealistically high level; and (9) if applied to wheat and feed grains on a different basis, the use of the substitution clause, a highly desirable part of this legislation, would be impossible.

I am not arguing at this point, Mr. Chairman, the facts concerning the statements I have made. I am simply making these as a list of the facts as we see them.

These are excessively high costs to be paid by American agriculture for a subsidy program for empty elevators and for grain and livestock speculators.

As a more reasonable substitute for the suggestion of partially isolating the Government stocks in storage from the market rather than to increase the CCC resale price, the Grange recommends the establishment of a national food reserve which would permanently remove from the market a quantity of food and feed sufficient to provide for the needs of a population approaching 200 million people for whatever emergency period that might be desired. Such a reserve should not be available for the reduction of prices of agricultural commodities that might become scarce on the market, but should be used only for the purpose of supplying the food requirements when none are available—regardless of the price being offered.

The CHAIRMAN. If we did that—do you mind being interrupted?

Mr. GRAHAM. No; I will be glad to be interrupted.

The CHAIRMAN. Should we set out this reserve that you speak of, of any commodity, to what extent would you then curtail production?

Mr. GRAHAM. We would continue to curtail production as we are at the present time, and try to get the remainder of the production in balance with the existing market demands.

The CHAIRMAN. Well, we have been trying to get that balance that you speak of now for the past 10 years and so far we have not succeeded. That seems to be our trouble.

Mr. GRAHAM. Well, we are moving in a better direction than we did for a long time. The wheat stocks are down some 1,400 million bushels to about 900 million bushels.

The CHAIRMAN. That is because of the change in the law it took this committee several years to accomplish.

Mr. GRAHAM. That is correct.

The CHAIRMAN. Reducing the minimum national acreage allotment below 55 million acres.

Mr. GRAHAM. Which we supported in the meantime.

The CHAIRMAN. And then with respect to corn, as you know, the corn producers have always gotten the advantage of being allowed to produce all they desired without any penalties. I do not know whether you have ever read the bills that I put in, but it strikes me that anybody who expects to obtain any kind of Government support should be willing to curtail his acreage in keeping with what our economy wants, both for domestic consumption, as well as for export.

Mr. GRAHAM. May I say that I think that this is basically true, but I do not think that we can recover in too short a period of time from the problems that were created by previous legislation where we did accumulate these huge stocks without some pretty disastrous results. I think that we are moving reasonably well in the direction that we are trying to go, and the fact is that if even with the present programs we were to set aside a reasonably large reserve for feed grains we would not have very much left over to depress the market, if any.

The CHAIRMAN. I have been hearing for years that 85 percent, in round figures of the production is fed on the farms where it is produced, but if that were true we would not have had this enormous amount of 85 million tons that we accumulated.

Mr. GRAHAM. It is more true now than it was 5 years ago.

The CHAIRMAN. Well, you still have 56 million on hand now. And in order to reduce it, it took us 4 years to reduce it by 28 million tons and a cost of \$6 a bushel.

Mr. GRAHAM. We are aware of that.

The CHAIRMAN. I do not think that a program of that kind would be blessed by the taxpayers of this country for a long time.

Senator AIKEN. We used 50 million tons. And on cotton and tobacco we were within a year or two of our balance between supply and demand, I would say.

Mr. GRAHAM. You are exactly correct. That is why we think that the setting aside of this as a permanent reserve—and I mean as a reserve—I do not mean as something that can be released if the price gets high—this is what we have now. I mean a permanent reserve that can be released only on the basis of need and not necessarily on the basis of price, because external factors such as international prices could push our prices up. It would not necessarily increase our domestic need at that time. So we have got to be careful that this is not triggered only by a price mechanism, but that it can be so set up that we could have a reserve that would basically remove what is now the so-called surplus in terms of the market, but not a surplus in terms of need.

The CHAIRMAN. There is no bill before us now to carry out your suggestion of a reserve, is there?

Mr. GRAHAM. No. There are two bills in the House which I think might come to you. I think that the reason for making the suggestion at this time is that we do not like to say in terms of the Commodity Credit Corporation resale price that we are against the raising of that level without having some basic reason and our basic reason—we have

given you a number of others—is that we think that there is a better way of accomplishing the desired result that will still leave us not depressing the market. Regardless of where you put your resale price in Commodity Credit Corporation stocks, that stock remains available for the market. Any way you call it, it is still available for the market. And we would move stocks completely out of the market availability category, then the depressing factors would be pretty well removed at the same time.

Senator AIKEN. The weakness of that plan is still that it depresses the market price, somewhat, as we found out with our metals, such as copper, tin, and the like, because it can be released any day by the Congress.

Senator YOUNG of North Dakota. This idea of Mr. Graham's is similar to a proposal that has been around the committee for a long time. I recall that during the Eisenhower administration we enacted a set-aside program for farm commodities. This was intended to take some of the surplus commodities off the market. What has happened to that program. Maybe I should more rightfully ask that question of the counsel for the committee.

Mr. GRAHAM. I would be glad to defer to him.

Senator YOUNG of North Dakota. What do we have as a set-aside program?

Mr. HARKER STANTON (committee counsel). A set-aside was provided for by the Agricultural Act of 1954. It was limited to specified amounts from 1954 and prior crops. It has all been disposed of and there is no provision for any further set-aside.

Senator YOUNG of North Dakota. Is that set-aside provision still a part of the law?

Mr. STANTON. There was one set-aside, and it has been completed.

Senator YOUNG of North Dakota. There was only just one set-aside?

Mr. STANTON. That was made at that time, with no future set-aside contemplated. And when that set-aside was used up that was the end of it.

Senator YOUNG of North Dakota. I understand.

Mr. GRAHAM. That is a different thing than a reserve, though. That suggestion was simply a set-aside with a triggering device based on price. And any time the price gets up to that level, everybody who is dealing in whatever has been set aside knows that this is going to move on the market at that point. And so we need a triggering device different from price, primarily the needs that we have to have.

The CHAIRMAN. How else could you do this except on a price factor?

Mr. GRAHAM. The available supplies. As I point out the price factor, in case of war in Europe, for instance—and we had this happen before—the demand for foodstuffs in Europe and the prospects of demand came so rapidly that our own prices moved up very much more rapidly than our domestic supply would have justified, so we moved our food out on the basis of that price. There was a time in relation to feed grains, as I am sure Senator Aiken remembers, that we almost ran out of feed grains in the Northeast.

Senator AIKEN. We were buying oat hulls from Canada.

Mr. GRAHAM. We let price trigger this out of the ever normal granary instead of need.

Senator AIKEN. And we mixed protein with it.

Mr. GRAHAM. Yes, sir. And we think in terms of a real reserve then this is the kind of thing that we want to avoid, so that it cannot be drained out simply because of the price on the international basis, but it would be kept for our own need and used only on the basis of absolute need. This is the pure function of a reserve.

The CHAIRMAN. Then you would have to have price controls as you had during the war to prevent the skyrocketing of the price of the commodity.

Mr. GRAHAM. I think this would happen, anyway. And prospect that we would not have price controls in another war, I think, is a faint idea.

The CHAIRMAN. Proceed.

WHEAT

Mr. GRAHAM. A long-time principle of the Grange applied in our thinking to such commodities as wheat, rice, dairy products and to some extent cotton and tobacco is that the return to the farmer should be on the basis of the price received for the commodity, according to its end use. We believe that it is just as unrealistic to price wheat on a blend basis as it is to price a load of mixed animals for slaughter on the same kind of a basis. We have long pleaded for a two-price program for wheat and are grateful that Congress has seen fit to adopt it.

In order to receive a reasonable return for that which is consumed on the domestic market, the wheat certificate has been used. The only thing wrong with the program is it did not provide an equitable return in relation to the farmers' costs of production. Wheat which goes on to the world market can be separately priced—and should be and has been. This removes the necessity for excessive dependence on tax subsidies, it increases the opportunity for expanded world trade and improves our relation with our international trading partners.

Senator YOUNG of North Dakota. Could I ask a question here, Mr. Chairman?

The CHAIRMAN. Yes.

Senator YOUNG of North Dakota. Do you feel that the wheat provisions of the administration bill, S. 1702, assure the farmer a price that is adequate to permit him to stay in business?

Mr. GRAHAM. I do not think that there is any bill before the Congress anywhere that is adequate in terms of price insofar as the total picture is concerned. The export subsidies is the critical factor in the bills that have had come before the Congress in terms of farm income. Because 100 percent of parity for the domestic certificate is adequate at that point, the export subsidy presents another problem in terms of international relations at the present time which we think has to be very carefully considered. The primary point that we have, as you well know, is that problems created by the Canadians who were selling for one-fourth of a cent less than we announced our subsidy, and a long time and we have had no market except a residual market. This had to be changed. We were reluctant to see the price of wheat go down, but we thought that the Department did the only thing that they could do to maintain any wheat sales at all.

Senator YOUNG of North Dakota. This is not the question that I asked you. I was inquiring as to whether or not the blended-wheat price supports under the administration bill, which would be around \$1.82 a bushel, would be adequate to keep the wheat farmer in business?

Mr. GRAHAM. I do not think so if he continues to produce a lot of wheat at a loan level.

The CHAIRMAN. At what level?

Mr. GRAHAM. At the loan level. This is the situation which is just like in milk.

Senator YOUNG of North Dakota. This still does not answer my question. In addition to the loan price he gets wheat certificate payments if he complies with the program. I asked if the loan level, plus the wheat certificate, which, under the administration's bill, would give the farmer a blended price of \$1.82 a bushel. Do you think that this is adequate?

Mr. GRAHAM. You have three prices in here, though. We have the domestic certificate, then we have the loan level, plus the export certificate.

Senator YOUNG of North Dakota. The export certificate would not be used under the administration program, as I understand Secretary Freeman's testimony.

Mr. GRAHAM. Yes. It removes the necessity that the export certificate has to be in it, but it does not prohibit the use of an export certificate.

The CHAIRMAN. It would be from zero to 100 percent, I think. We tried to fix it at not less than 50 percent of the world price in the rice bill.

Senator MONDALE. Does not the Secretary retain the discretion to impose the export certificate?

The CHAIRMAN. Yes, sir; from zero to 100 percent.

Senator YOUNG of North Dakota. Secretary Freeman indicated that he does not plan to use the export certificate though.

Senator AIKEN. But he might not last as Secretary.

Senator MONDALE. He did not say.

Mr. GRAHAM. I do not know what he said, but I know what the basic thinking has been, and that is that we would not advertise what we intended to do so far as prices as we have been doing in the past, and that some flexibility should be maintained in this picture to show some of our international trading partners that we mean business about trading. I do not think that we can come to any decent agreement in terms of the International Wheat Agreement or any other agreement as long as they do not believe that we mean business about trading.

It was interesting to note that the Canadians, who are pretty unconcerned about what we thought about their continually undercutting us in the marketplace after we had announced our support of the subsidy one day and the sale would be about complete, and they could cut us one-fourth of a cent. On 20 million bushels of wheat that is a lot of money. And so they were getting the sales. When we began to cut our prices down to meet the Canadian competition, in less than 6 weeks the Canadian farm organizations were writing to the U.S. farm organizations here, and their Department of Agriculture was beginning to talk to ours about what we could do about an agreement.

Well, this was a lesson that had to be taught to them somewhere along the line so that we could compete if we had to in the world markets. Also, that we were not going to be a residual supplier for the market needs of the world and continue to cut our production while our competing countries were increasing their production, as the Canadians said "from fence to fence," in their fields.

Senator YOUNG of North Dakota. Mr. Graham, I agree with you on that, but under all of the pending bills—the Farm Bureau bill, the two bills that I have introduced, the administration bill and others—exports would be treated substantially the same. Under the Farm Bureau bill and my bill the minimum price support would be 50 percent of parity or the 3-year average of the world price, whichever was the higher. This is substantially the same as the administration bill. We are not arguing about this at all. I asked a simple question, whether you thought the blended price under the administration bill would be sufficient to keep the wheat farmers in business.

The CHAIRMAN. I understood his answer to be in the negative.

Mr. GRAHAM. That is what I intended to say.

The CHAIRMAN. If we are to do what you suggest, any commodity that we produce for export should sell at the world price without any ifs and ands about it—let it find its level—is that what you are saying?

Mr. GRAHAM. I think that we have to do that or to come to an international agreement on those prices. We cannot do it both ways.

The CHAIRMAN. I am sick and tired of these international agreements.

Mr. GRAHAM. I am, too, on the basis of which we have entered into them and then we tie our own hands on what we can do about them, and this is where the international agreement breaks down. The IWA agreement broke down at this particular point. In the GATT negotiations we ran into another question and this is the critical question with the Common Market—it is how much do we subsidize our exports. The EEC has simply said that they will put a levy, a variable levy on to take care of any subsidy that we want to put on. So in the final analysis we have not gained anything at that point by export subsidies.

And, again, I do not think that the Common Market began to think in terms of serious discussion of the agricultural section of the GATT negotiations until it became evident as it was in wheat in the early months of this year that we were going to compete, one way or the other. I think that they then began to talk a little sense.

We had as our guest in our home last night a gentleman who came to see you this morning. We have talked to the French a number of times.

The CHAIRMAN. He just left here.

Mr. GRAHAM. We talked to a number of the French people and to the German people and to the Belgian people and to the Dutch people, and the lesson that we thought we taught them was well learned by everybody except the French. At the recent meeting of the International Federation of the Agriculture Producers that was just completed in Oslo, it was seen within the discussions in that organization tremendous pressure developing from the rest of the Economic Community and the "Outer Seven" to do something to come to some kind of a reasonable agreement with the Americans, because we have told

them right along—and I think now we do not want to untell them—that we are going to compete in this world market with our American agriculture products. What they have wanted is an international agreement that kept us from competing. And they have had it pretty well that way. And that is why we did not insist or argue or suggest that the International Wheat Agreement be extended for more than 1 more year. And if they are not going to come to an agreement where we can compete on an equitable basis in the markets with some reasonable access to those markets, then the continuation of an International Wheat Agreement is futile.

Then we get to the place where we are going to come down to the basis of who can compete in the world markets. And in this case we may not—I do not think that we can make any money in the world markets at the world market prices or anything of that kind. I think that in a case of the matter of the use of capital reserves, when we begin to use our subsidies, I think America has adequate capital reserves to compete in the world market. I think this is just hardheaded business that we have got to get into, and get into it very fast.

Senator AIKEN. Mr. Chairman, I do not think that competitors are all bad because they are very generous in one respect: they are willing that we should have all of the exports to those countries where no pay is expected for the product.

Mr. GRAHAM. We have had a monopoly on that.

Senator AIKEN. They have given us almost a monopoly in that market.

Mr. GRAHAM. I think in fairness to the French, though, they are the only ones of the Common Market who are beginning to do something along that line. And, also, in fairness as I will say later on, that the Common Market is telling us that they, too, are willing to share in this responsibility. A representative of the Council of the Commissioners last week told us that they are not ready—and this has already been recommended by the Council of Ministers—to begin talking in terms of an international food and hunger pool policy in which all producing nations would share in this responsibility—and this is the critical need of the whole thing—plus industrial nations who have the money to help carry that load. We must not leave it only for the agricultural nations to carry this load. If we can get a combination of France, which is an exporting country, and West Germany, which is an importing country with a good economy at the present time, to enable them to share in this cost, we could begin to come out from under this load which we have carried all alone. And these people aggravate me when they talk about what we have tried to do to the market. We have protected their market and supplied the needs of the people. I think that America's skirts are pretty clean at this point.

Senator YOUNG of North Dakota. We have gotten ourselves caught up in a rather difficult maze of wheat markets throughout the world. We have a monopoly on the giveaway wheat market. On the other hand, the other wheat-exporting countries have a virtual monopoly on the dollar market, with the exception of Japan. They do have a monopoly on sales to all of the Communist countries. This is where most of the poor people are and these nations also represent the largest dollar market for wheat. We are not in that market at all. This is a basic

reason why wheat is in a very difficult situation now and a big reason why we can't compete at lower world prices.

Mr. GRAHAM. Yes.

Senator YOUNG of North Dakota. That is the world market situation we face.

Mr. GRAHAM. In a competitive world market with no international or national stabilization policy—in a cutthroat world market the American wheat farmer cannot survive, and neither can anybody else. I think that we can survive longer than some of the rest, but we cannot survive eternally on that.

The CHAIRMAN. Please proceed.

Mr. GRAHAM. The surplus of wheat beyond that which goes into these two markets for human consumption can be disposed of in one of two ways; i.e., it can be placed in storage or it can be used for animal feed. Since the latter is the only use which has any real meaning then this part of the surplus must be supported at a price which bears a direct relationship to the support level of feed grains. This permits the use of a substitution clause and increased freedom in management decisions by farmers.

This system is a proper application of the economic laws of supply and demand in that it (1) places reliance upon the primary and most profitable market for the major return for the factors of production; (2) recognizes the difference between American and international price levels; and (3) makes the production of surplus wheat considerably less profitable than the production for the primary and export market. Further, it avoids the twin fallacies of pricing the most desirable wheat, or part of the commodity, whatever the commodity is, at a marginal price level as would be done under the so-called free market principle. At the same time it avoids pricing the marginal production at the level returned by the open end support system whereby all the wheat is supported at the same level.

This was the problem that created our surplus, incidentally. This program gives basic attention to the demands of domestic and foreign markets and by economic rewards and penalties seeks to adjust the production to the demands of the market.

During the last crop year \$387,758,000 has been returned to the American farmers by this program. Diversion payments as a part of the wheat program have amounted to \$42,799,000. The price-support program—that is, the loan program—as of February 1965 cost \$7,707,000. The total farm income from the wheat program has exceeded the market return by \$438,264,000.

I think that it is interesting to note that the loan program, down to \$7 million, is at an extremely low level for wheat, in the history of our wheat programs, and that the major part of the whole program, some 88 percent of it, did not come from taxpayer funds. This income would not have been available to American farmers had there not been a wheat program.

Senator YOUNG of North Dakota. I note that you give the amount of the diversion payments, but you do not give the amount of the wheat certificate payments. These payments do not represent a cost to the Government, but they are an income item for the farmer.

Mr. GRAHAM. Yes. The wheat certificates were the \$387 million figure.

Senator YOUNG of North Dakota. The \$387 million is derived exclusively from wheat certificate payments?

Mr. GRAHAM. Yes.

Senator JORDAN of North Carolina. That is exclusively for wheat certificates?

Mr. GRAHAM. Yes.

Senator JORDAN of North Carolina. The figure of \$387 million, that is exclusively wheat certificates?

Mr. GRAHAM. Yes. For the benefits returned to the American economy the program has not been excessive in cost to the taxpayer. For the benefits which would accrue, not only to agriculture but to all of the American economy, the increase of the domestic certificate from 75 cents to \$1.25 would be very nominal to the consumer. It is a small percentage of the increased costs which have already been imposed, none of which were used to benefit the producer of the wheat.

Senator YOUNG of North Dakota. You have been hearing a lot of comment from several groups; that is, if this new program is enacted the price of bread would have to be increased by 2 cents per pound or per loaf. I think these people have convinced a lot of consumers that this is the case.

Mr. GRAHAM. That is so patently phony that we should not have to take time to discuss it, but I would like to take a minute.

Senator YOUNG of North Dakota. This is the feeling among a great many people at the present time.

Mr. GRAHAM. You remember the last year we got the same kind of argument, that this was a bread tax that would have to increase the price of the bread. Well, it did not increase the price of flour. I watched very carefully all year long the market price as quoted for flour in Kansas City in the Wall Street Journal, and for many months it was about 5 cents under a year ago. Then it climbed in the last couple of months, until it was equal to a year ago. And just recently it is exceeding a year ago, because there was a decline in the price of flour on the Kansas City market through June and July of last year. Then it went back up where it was, but overall the price of flour this year has not been quite as high as it was last year.

Senator YOUNG of North Dakota. How about the level of flour prices 2 years ago?

Mr. GRAHAM. The same is true for 2 years ago. The price has been consistent at about \$2.05. And the combination of the certificate and the loan put the price of flour about where it has been. And this is what we intended to do. That was what the Congress intended to do at the time.

We heard last year that this would cause an increase of 1 cent a bushel, we received that from some people who testified before this—

Senator JORDAN of North Carolina. You mean 1 cent a loaf.

Mr. GRAHAM. Yes, sir. And then there were others who were honest enough to say that this price increase was going to come any way, whatever happened to the bill. And the price increase did come. But none of it went to the farmer—none of it whatsoever. Now we are up against this new attack. What has been happening, because wheat did go down, as you remember, after the war, we lost 1 cent a loaf in terms of the value of wheat in the reduction of the price of wheat to the market, but this did not decrease the cost to the consumer. Instead of that,

there has been a steady rise in the consumer cost. Now the people who come before this committee, and who came before the committee on the House side, have said that all of a sudden they are terribly concerned about what is happening to the consumer, when they have steadily raised this price. They have never come to this committee or to any other committee, and objected to what their own increases were costing the consumer. Not once have they done that. But now when we get to the place where we need a penny a loaf, per loaf of bread, and labor has received this increase, through labor legislation, and the processor and the baker has had his way of getting his increase, and history has proven that they have had the raises when we have not, and when we need seven-tenths of a cent on a loaf of bread in order to get some farmer income, then they come in and say this will cost the consumer 2 cents.

What they are doing is two things. One, they are trying to prevent the farmer from getting the money that he ought to have, in order that they can increase this cost in their schedule with impunity. This schedule calls for increased costs of bread. It has gone consistently this way. And it will still go up, regardless of what we do with this bill. And if we pass this bill it will, probably, go up 2 cents, but they cannot honestly say that it is because of the increase in the cost of the wheat.

Senator YOUNG of North Dakota. It would appear that I asked the right question.

The CHAIRMAN. Yes.

Senator YOUNG of North Dakota. Mr. Graham, you have made a good statement on this problem.

Senator JORDAN of North Carolina. I have heard all of these same things. Did the millers absorb any of this increase in price?

Mr. GRAHAM. No, they did not.

Senator JORDAN of North Carolina. Wheat cost him the same approximately?

Mr. GRAHAM. Basically the same.

Senator JORDAN of North Carolina. Per bushel?

Mr. GRAHAM. He did not have to absorb the cost, because he had these other costs reduced enough to take care of the certificate that is a part of the program.

Senator JORDAN of North Carolina. What other costs were there?

Mr. GRAHAM. The costs that he had previously been paying to get the wheat from Commodity Credit Corporation stocks.

Senator YOUNG of North Dakota. You are referring to the prices millers had been paying on the market prior to the enactment of the present program?

Mr. GRAHAM. On the market, yes. His costs were that high. And they still remain almost identical. These statements simply do not square with the facts. We do not have any objections to labor getting an increase in the price of their work. This is justified. We do not object to the millers and the processors getting an increase. In an expanding economy, obviously, these things have to happen, but why cannot the farmer get some of this income from this expanding economy? This is the question we are asking.

And why is it that those who have benefited from legislation in the past now aline themselves with the people who have traditionally given them their most terrible trouble—against the only people who

should be their friends, especially at a time when they are all talking about right-to-work laws and adding minimum wages to agriculture. This makes no sense to me. And as you can see, I am not very patient about it.

Senator YOUNG of North Dakota. I fully agree with your comments. I wanted you to make that statement.

Mr. GRAHAM. The Grange urges the increase of domestic certificates to 100 percent of parity with the removal of the discretionary authority of the Secretary to price these certificates; a continuation of the substitution clause; the granting to the Department the authority to vary the value of the export certificates and, if necessary, to eliminate them for short periods of time; the continuation of the diversion payments as a means to further improve an already depressed farm income; and the extension of the program for a long enough period of time to coincide with the necessary planning which is inherent in the farming operations.

FEED GRAINS

The present concept of the feed grains program was developed by the National Grange Feed Grains Advisory Committee in 1958. It has had consistent support from the Grange since that time. The National Grange is in favor of at least a 3-year extension of the program.

And, incidentally, from many members of this committee. We could not get it done quickly enough to prevent the kind of situation which faced us in 1961.

The CHAIRMAN. As you remember, this was a temporary program.

Mr. GRAHAM. Yes.

The CHAIRMAN. So that we could have another to supplant it. We would have acreage controls. That was my idea, but this temporary program is now being considered as a permanent program. And that is what I take issue with you on, and others who want to extend this program for another 2, or 3, or 4, or 5 years. I think—I repeat—any farmer who expects this Government to grant him price supports should be willing to reduce his acreage so that the production can be in keeping with our requirements, both domestic and export.

Mr. GRAHAM. If we do that, it would be to maintain a kind of a level of farm income that would mean that which remained would have to be supported at a higher level. So we get our problems either way we go.

The CHAIRMAN. I would think otherwise—it would put everybody in the same bag. I believe that it would work better, be more satisfactory, but here you have people who can produce all of the corn that they want to produce without penalty. You could not do that in cotton, nor could you do it in wheat, nor could you do it in the production of peanuts and rice.

Mr. GRAHAM. Well, there is some penalty in that he is not eligible for the diversion payments which are a substitution for the certificate type of program in wheat. He does not have quite the same equality.

The CHAIRMAN. What I had in mind with wheat is that the old program that we had—that we started out with.

Mr. GRAHAM. Yes.

The CHAIRMAN. All programs started out with acreage controls; as you know, with the exception of corn.

Mr. GRAHAM. And acreage controls has never been anything that has been very high on our list as an effective way of handling surpluses, especially in corn. The technology of corn production has advanced so rapidly since the time when I used to plow corn behind a team of horses to the present day way of handling corn with adequate fertilizer and hybrid seed and a shorter growing season and all that goes with it, that this is an entirely different industry than I grew up with in the corn country in Illinois. I hardly know it when I go out there.

Senator AIKEN. And the high percentage of corn planted for silage complicated the situation, because that competed with the hay rather than the other grains. That is one thing that made it so difficult to do anything.

Mr. GRAHAM. To some extent it competed with the grain.

Senator AIKEN. Yes, it competes with hay or grain, depending upon what uses are made of it at harvest time.

Mr. GRAHAM. If you harvest it at close to maturity there is a good deal of feed value in the corn that is in the ear at that time.

Senator AIKEN. It is put into the silo, just as it goes out of the milk stage.

Mr. GRAHAM. Sure.

Senator AIKEN. So that it does produce grain, too, at the same time it produces the roughage.

Mr. GRAHAM. We have done another thing, that folks from the corn country have some serious questions about, and that is to permit the substitution of feed grains in areas that have crop controls on other crops that have taken their crops out of production.

This is one of the problems. It is not an easy one to answer because the South has its problems in terms of cotton. We put cotton and tobacco under controls, and have reduced their acreage and said, "You can plant it in feed grains." This has made its contribution to the problem. It has been a contribution to the development of the Southeast's agriculture, and I am not adverse to that.

The CHAIRMAN. If you had had feed grain acreage controls based on history, why it would not have gone the way it did—I mean, that the production would not have been as great as it is now.

Mr. GRAHAM. I think that is right.

The CHAIRMAN. There is no doubt about it, in my mind.

Mr. GRAHAM. Senator, we have not been particularly objecting to your approach in the past. As you know, when milk and some other things came up, we supported your suggestions. At this point we do not think that it could be passed in the House—we do not think that it could be passed in the referendum.

The CHAIRMAN. Well, we could just lower the support price then—leave it as we have it in the present law.

Mr. GRAHAM. That is one way.

The CHAIRMAN. It will stabilize the corn prices. All you need is stability in the corn prices. I think that either one will do it. Of course, it will mean 80-cent corn if you produce more than is needed.

Senator AIKEN. 80-cent corn means \$1.80 corn where I live, because we have very little. In some cases they get one-half as much, I guess, for transporting the corn as they get for producing it.

Mr. GRAHAM. The things about this is that in the reduction of the corn prices a few years ago we stimulated a very rapid increase in beef production.

The CHAIRMAN. Who stimulated it? The farmers did it voluntarily, did they not?

Mr. GRAHAM. Yes, but what happened——

The CHAIRMAN. All of the doctors and the dentists and other people who did not have a bit of business getting into raising cattle, did get into raising cattle.

Mr. GRAHAM. This is exactly the reason that we are concerned, because once you get your margins of profit, that is, your available profits high enough, the in and out can come in. He is not as efficient as the man who feeds these cows all of the time, but he still can make a profit at that point. This is precisely what they did. Now beef feeding is getting down to a pretty competitive basis right now, so that the in and out is out, although some of them put so much money in that it is very hard to go out after you have invested a couple of hundred thousand dollars. Moving in and out is not as possible as it used to be. But we have got a reasonably good adjustment between beef prices and corn prices. And, finally, we are getting an adjustment in hog prices up to the desirable 14-to-1 ratio which is a little better than it used to be. We are in pretty good shape on both of these with some fluctuation now, but neither of these commodities are in trouble. We are not grateful for this. We are against with fiddling with the price too much right now, because we think we would create another problem where we have all of these western boys wearing cowboy hats in here like they did last year, and as we all lived through that one, I do not want to live through another one.

Senator AIKEN. The eastern girls are wearing them now.

Mr. GRAHAM. But they did not carry the same kind or create the same kind of ruckus that the western cattlemen did.

The CHAIRMAN. Please proceed.

Mr. GRAHAM. It represents a critical amount of farm income. Although the placing of \$293,508,000 worth of corn under the loan program may not be considered as extra income, the fact is that the \$868 million (that figure is wrong—let me correct that later) diversion payments did amount to 7 percent of total net farm income of the Nation. As long as the price is averaging only about 75 percent of parity, then, in the interest of maintaining farm income already at a critically low state, the National Grange approves and supports the continuation of this diversion and support program.

The program has reduced the supply of feed grains stocks from 86 million tons to about 55 million tons. It has created a stabilized and improved foreign market. It has maintained a stability in the cost of feed to the producers of animal products and has been a major factor in enabling these producers to make the production adjustment that is bringing an increasing stability into their markets.

The Grange would not support the suggestion that the feed grains program be put on a mandatory basis because of our doubts that it could be passed in the House of Representatives and our certainty that it could not receive enough votes to get it approved in a referendum.

The present domestic and world supply does not indicate the need for a mandatory program.

Senator MONDALE. According to your testimony, Mr. Graham, the price of feed grains is about 75 percent of parity. And among your suggestions to extend it for 3 years you have that suggestion. Has your organization considered the possibility of trying to increase the return to the farmer in the feed grain program?

Mr. GRAHAM. Yes, we have, but, again, we get into the same problem. The feed grain program cannot be considered by itself, because it relates so directly to beef, pork, and dairy and, indirectly, to wheat.

Senator JORDAN of North Carolina. And to chickens.

Mr. GRAHAM. Oh, yes.

Senator AIKEN. Yes, to chickens.

Mr. GRAHAM. So that we do not know how to increase the support level without getting ourselves in trouble, no more than we know how to decrease it without getting into deeper trouble. It would have some effects on these other industries that would, probably, further decrease the amount of beef and it, probably, would increase the cost of beef. The consumer should recognize that this is serious; that there is more than one way of increasing the consumer cost.

The CHAIRMAN. But, Mr. Graham, let me say this to you, you said that the price of corn—the support price of 75 percent of parity, in that, do not overlook the direct payment——

Mr. GRAHAM. I have not.

The CHAIRMAN. Where he is paid that, which is 20 cents per bushel. If you add that all together it is about 80 percent of parity that we are paying. And besides that he gets paid not to plant. When you add all of that up together it is quite a return that he obtains, compared to other commodities.

Mr. GRAHAM. We recognize that it is. That is why we said at the present level we are reluctant to go down any further because we just have such a rough time coming back up again.

Senator MONDALE. Would the National Grange be satisfied with the income return?

Mr. GRAHAM. The National Grange is not satisfied with the income return of any segment of agriculture today.

Senator MONDALE. You do not have any suggestions for improving that return, do you?

Mr. GRAHAM. I think the improvement of the return is a longer term basis than the continuation of the programs that have reduced this surplus, and getting it down to where there are some competitive factors in terms of feed grains, and then there would be competitive factors in terms of meat production, too, but the amount of surplus is the critical thing in improving the income.

Senator MONDALE. In other words, if I understand you correctly, your position is that the feed grain farmers are not receiving adequate returns, and that the hope for an improved return to the feed grain farmer, in your opinion, rests upon doing something about the surpluses, and in this regard you would suggest a continuation of the feed grain program, hoping to bring that into balance?

Mr. GRAHAM. The only other way of improving it without getting ourselves into trouble all the way through, through these interrelated commodities, would be to increase the amount of the diversion payments.

Senator MONDALE. In order to add more acres?

Mr. GRAHAM. You might, but it would, also, improve the farm income by the amount that it was increased.

Senator MONDALE. But you are not recommending that?

Mr. GRAHAM. No. I would like to, but the practical politics of it is that it is futile to do it.

Senator MONDALE. That is the thing that surprises me. I will not use the word "surprises," but when I am home, talking to my feed grain farmers, there is a sense of urgency that I hear from most of them. They are having a terrible time in this cost-price squeeze situation. The farmers want something done soon to improve their farm returns. I am most impressed by the figures and the statistics they have presented.

Mr. GRAHAM. Yes.

Senator MONDALE. Yet you do not seem to reflect it in much of this testimony; that is, the same sense of urgency that I hear at home from the farmers.

Mr. GRAHAM. They do not, I think, on the other hand, see the practical realities of Washington life that we have to face, and one was the extreme difficulty that we had of maintaining the loan level where it is this last spring. There was a very rough fight to do that one.

To talk about increasing diversion payments in the light of the present budget specifications and the desirable attitude by Congress to reduce the costs, which simply means that what we would like to do seems to be so impractical that to push it very far would make the rest of our program look impractical. What we want is 100 percent of parity in income, but in the present circumstances we do not see how we can get it. This may be fatalistic and the like, but I think that the practical solution is a practical recognition of the facts of life at the present time. I do not have any encouragement from places where we ought to have encouragement that we could do any better.

The CHAIRMAN. I would like to insert into the record at this point figures indicating that in 1947 the farm value per bushel of wheat was \$2.35 a bushel, and bread was selling at 11.9 cents a pound.

And that in 1963 the farmer got \$1.94 per bushel, but the bread that the consumer purchased went up from 11.9 cents a loaf to 20.7 cents a loaf.

This table indicates the cost of all the ingredients. I will ask that this table be placed in the record at this point.

Senator JORDAN of North Carolina. Would you mind reading all of those? It is very short.

The CHAIRMAN. I do not want to take up the time to do that. We have several more witnesses.

Senator JORDAN of North Carolina. Very well, never mind.

(The table referred to follows:)

Farm value of wheat and bread prices

Year	Farm value of wheat per bushel	White bread retail price (cents per pound)	Year	Farm value of wheat per bushel	White bread retail price (cents per pound)
1947-----	\$2.35	11.9	1957-----	\$1.97	18.0
1947-49 average-----	2.14	12.7	1958-----	1.79	18.5
1950-----	1.96	13.5	1959-----	1.75	18.9
1951-----	2.12	14.9	1957-59 average-----		
1952-----	2.12	15.1	1960-----	1.76	19.5
1953-----	1.99	15.5	1961-----	1.81	20.0
1954-----	2.05	16.3	1962-----	1.96	20.3
1955-----	2.02	16.8	1963-----	1.94	20.7
1956-----	1.98	17.1	1964 (December)-----	¹ 2.09	20.7

¹ Includes 70 cent certificate.

Source: Farm-Retail Spreads for Food Products, 1947-64, USDA.

Mr. GRAHAM. May I ask you a question on this, Mr. Chairman? Did any of these people who are protesting this increase in the price of wheat that goes to the farmer today ever come before this committee and protest any of this increase in the price of bread?

The CHAIRMAN. Not to my knowledge.

Mr. GRAHAM. You have been here a long time, have you not?

The CHAIRMAN. Yes; 281½ years.

Let me say further that the 1947-49 average was \$2.14 that the farmer got out of the bushel of wheat, and that bread sold for 12.7 cents a loaf. Today, as I pointed out a while ago it is different. Let us take, for example, 1960. The farmer received \$1.76 and a loaf of bread was selling for 19.5 cents a loaf. The farmer was getting \$1.81 in 1961 and a loaf of bread sold for 20 cents. In 1962, bread sold for 20.3 cents a loaf and the farmer received \$1.96.

Mr. GRAHAM. It went up a cent last year.

The CHAIRMAN. It simply shows that the cost of the wheat was not the factor that made the price of bread go up.

Mr. GRAHAM. It has nothing to do with it.

The CHAIRMAN. It has nothing to do with it.

Mr. GRAHAM. Nor would it have this time.

Senator YOUNG of North Dakota. That was a good speech that you made. Thank you, too, Mr. Chairman.

Mr. GRAHAM. I thank the chairman for adding that. He added the factual data to my own statement.

The CHAIRMAN. Please proceed.

RICE

Mr. GRAHAM. This is one of the more complicated problems before the committee due to the very rapid increase in production and the excessively high costs of the program—per acre and per producer.

As a matter of policy of long standing the Grange supports the application of the two-price or certificate program to rice. We are convinced that this presents at least a reasonable possibility for maintaining rice farmer income at or very near its present level, and that a continuation of the present program would not be acceptable and any adjustment would mean a substantial loss in farm income to the people who accept these programs.

The CHAIRMAN. Under the new program, the Secretary of Agriculture could reduce the acreage from the minimum of 1,600,000 to 1,400,000 acres. And that, certainly, would decrease the income of the farmer. That is why I am opposed to this type of program.

Mr. GRAHAM. Based on the amount of rice which is consumed in the Nation the added cost of the product, although substantial, would not be a critical factor in its consumption.

May I just say in addition that I do not think that the average housewife has the faintest idea how much rice costs per pound at the present time, because she uses so little of it.

Senator JORDAN of North Carolina. You say that she does not know?

Mr. GRAHAM. She does not have the faintest idea of what it costs. She uses so little of it. She has rice to go into chop suey or into spanish rice or something. She buys it to meet a specific need.

The CHAIRMAN. That is correct.

Mr. GRAHAM. However, there are a couple of areas where there are people who use rice in more substantial quantities.

The CHAIRMAN. But if you recall, the ricegrowers were asked by our Government to increase their acreage.

Mr. GRAHAM. I know.

The CHAIRMAN. That was 5 or 6 years ago.

Mr. GRAHAM. Yes, sir.

The CHAIRMAN. To assist the people abroad to whom we made rice available.

Mr. GRAHAM. But then we charged that to the farm program.

The CHAIRMAN. That is correct. And the rice farmers cheerfully responded. I need not tell you that the cost of production of rice is very high.

Mr. GRAHAM. As I would point out, this is a much more complicated program than anything, except on cotton.

The CHAIRMAN. What caused the program cost to go up was that so much was exported under Public Law 480.

Mr. GRAHAM. It went out, 60 percent of it, under that.

Senator JORDAN of North Carolina. Has the consumption of rice gone down?

The CHAIRMAN. It has increased.

Senator JORDAN of North Carolina. It has increased, the consumption. What do they do to it so that you can cook it in 2 minutes? That is what I would like to know?

Mr. GRAHAM. It is precooked.

Senator JORDAN of North Carolina. They precook it and then it is dried?

Mr. GRAHAM. Yes, sir.

The CHAIRMAN. It is precooked and dried.

Mr. GRAHAM. Based on the amount of rice which is consumed in the Nation the added cost of the product, although substantial, would not be a critical factor in its consumption.

There are only two points that I want to make in addition to what I have already said.

A case is being made for those impoverished people who depend more heavily on rice for their diet. We have made substantial investments in welfare and food stamp programs to care for these very people. We cannot and must not let the purchasing ability of the

lowest level of our economic groups determine the prices of our agricultural commodities. This is a welfare problem and not one of food pricing and the two should not and must not be confused.

Although we are in general agreement with the rice section of S. 1702, it appears that the changes contained in S. 2111 in the section entitled "Authority To Facilitate Transition" constitute a constructive suggestion that should be given serious consideration by the committee.

Whether it is rice, wheat, milk, or anything else. If we do that, we are bankrupt.

The other suggestion that we would make is that we have learned from the rice farmers we have talked to they are all scared as to what would happen this next year. We have suggested that the Department lock in at 100 percent of parity the amount that will be used for the first year for 3 years, so that whatever adjustments might be made in consumption would be absorbed during that period of time.

DAIRY PRODUCTS

The passage of a class I base program for the dairy industry has been a prime objective of the Grange for many years. We gave active support to S. 1915, the Proxmire bill, which the Senate passed last year. We support S. 399 with the same vigor and make only one suggestion for its improvement.

The inclusion of the producer-handlers in S. 1915 was a major cause for lack of action in the House Committee on Agriculture. While this is a problem in a very few areas, in general the producer-handler share of the milk market is neither a critical nor important factor in most markets. There are a few instances where this statement unfortunately is not true.

The Grange will, therefore, support a modification of this bill to simply state that the passage of S. 399 and its companion bill in the House would not change the legal status of producer-handlers of milk under the provisions of the Agricultural Act as reenacted and amended by the Agricultural Marketing Agreement Act of 1937. Thus we would not increase the burden of the producer-handlers beyond those they already bear, nor would we extend their exemptions which are already substantial.

Senator AIKEN. This bill in the House provides for individual voting by each and every man. Apparently, the purpose of eliminating the block voting of marketing organizations is to destroy marketing orders themselves. It also provides for the sale of bases or the leases thereof. It provides that the producer-handler goes on as he has been doing without paying into the pool. Therefore, there is nothing in the bill to prevent the producer-handler from buying enough bases, so that he controls the market and weakens the marketing order to the extent that it might very likely go out of business. I think that we had better look that over regarding the sale of bases; because one of my neighbors who is milking over 1,000 cows already has farms in another State, and is producing up to 75,000 pounds a day and pays nothing whatsoever into the pool, and he does it all legally.

Mr. GRAHAM. Yes.

Senator AIKEN. I can just see a few producer-handlers going into the dairy sections and buying leases and bases enough so that this plays

pretty much into the hands of a few people. I do not include in that group the great dairy cooperatives which do business on an international basis and play one country against another. They are largely responsible for holding the prices down. It is not a question of supply and demand any more.

Mr. GRAHAM. Right.

Senator AIKEN. Because supply and demand is really in as near balance as we can ever hope to get it when we consider the short seasons and the flush seasons. Nobody yet has found a way to make a cow produce as much in November as she produces in March and April, even if she freshens up in September; she will produce more the following months. We have increased the average production from around 4,000 per cow up to 10,000 pounds, or nearly 10,000 pounds per cow in my area, and to the propagation of cows it has come to the point where a cow may be born in Minnesota, and her father lives in Europe and her mother may live in Australia, but she is born in Minnesota. The romance has been pretty well blasted out of the dairy industry. That is a fact. I am worried about it.

As I told some folks the other night, younger people grow up in Vermont now, finish high school and never have seen a bull. And that applies to most of the cows, too. [Laughter.] I wish that you would take a look at this bill for the reasons I have stated.

Mr. GRAHAM. The producer-dealer is under market orders—I mean, the market orders can be applied and are applied in restricting what the producer-handler can do. In New York he cannot even, for instance, help his neighbor fix a fence. This is a little stupid when it gets to that point.

Senator AIKEN. Yes.

Mr. GRAHAM. So far as we are concerned, we think that the existing law provides the mechanism for the hearing process. They can do some changing if it is necessary.

Second, the bill that is now before this committee provides for the hearing processes which would, also, have something to say, about the transfer of bases.

The position of the Grange is that bases should not be transferred without restriction, but they should be permitted—and this is true whether it is in cotton or in tobacco or in dairy—they should be permitted to have consolidation of small inefficient units into a fairly efficient unit, and beyond that the consolidation should come with the purchase of the land with the base.

Senator AIKEN. Here is another thing: This bill gives the Secretary of Agriculture great powers, but do not forget the fact that the Secretary of Agriculture is under higher authority, and he either does what he is told to do, to take the position they tell him to take, or they will get a new Secretary who will do it. And that is why I do not like to legislate for any man.

Mr. GRAHAM. Yes.

Senator AIKEN. I do not like that—I mean, Secretary Freeman said, “I will not do these things.” If he did not do them, he would not be Secretary too long.

Mr. GRAHAM. And the next man would do them.

Senator AIKEN. And the next man would do them, yes.

Mr. GRAHAM. Yes.

Senator AIKEN. We have an example now of the administration undertaking to transfer farm programs, as we call them, over to the urban program, to concentrate urban power more; that is what they are doing. It is not really that they hate farmers, but it does concentrate the power. Just recently, the Bureau of the Budget has directed the REA not to lend the money which the Congress provided for last year; cut it down to \$75 million, I think.

The other night Mr. Bertsch came up here at 5:30 and said that he was directed by the Bureau of the Budget to oppose the bills providing for rural water systems. Also, it was reported to me—and this is directed to Minnesota—that they are planning now to put the control of a large part of the Soil and Water Conservation Fund and its expenditures under the Housing and Home Finance Agency. I have no evidence on that. I have on the other. By declaring large areas of farmlands in rural areas suburban, they can put them under the Housing and Home Finance Agency, and I am sure that they are up to it. I do not think that they can be administered as well there. That is why we have to be very careful what authority we give them. And when we do, then they do not pay any attention to what we do.

Mr. GRAHAM. We would not object to some clarification.

Senator AIKEN. I can see if there is not any clarification, either in the report or somewhere else, that we could run into serious difficulties in the dairy industry.

Mr. GRAHAM. Yes, sir.

WOOL

The Grange believes that the Wool Act of 1954 has been a major factor in preventing a further decline in the amount of wool produced by our domestic woolgrowers. It has not attained its objectives of decreasing our dependence on wool imports. The 1964 annual session of the National Grange adopted the following resolution:

Whereas the National Wool Act of 1954 has worked very well as evidenced by the more than 90 percent favorable vote in the last referendum and the increased income to sheep producers: Therefore, be it

Resolved, That the National Grange urge the extension of the present law.

The National Grange would support the provisions included in the House bill to provide an escalator clause so that the amount of payment would accurately reflect the percentage of parity as established by law.

The recent and persistent decline in egg prices to levels far below cost of production and the failure of the market to respond from this low level to a price which could return a profit to the producers is a major concern of the Grange.

If legislation is introduced in the Senate as it has been in the House permitting producers to establish by the hearing and referendum process marketing orders and quotas it will have the support of the Grange, and we would like to submit testimony if and when such legislation is considered.

CROPLAND ADJUSTMENT

The Grange has long held that the acreage reserve features of the soil bank program were of extremely questionable value. This conviction has not been changed by the modification suggested in the cropland adjustment program contained in title V of S. 1702. We do sup-

port the concept of picking up the original soil bank contracts until their expiration as a matter of principle and expediency.

We hold that, in general, acreage reduction programs have not achieved their objectives; they have created enormous social problems as a result of outmigration from rural areas and unemployment in rural areas; they fail to recognize that there are other factors of production more important than land; namely, capital and management; that to be effective vast areas of marginal land would have to be removed before the more productive land would come under the contract; that in some areas there is no economic use for the land except that already in practice; and that any massive land retirement program would be premature and inconsistent with national and international welfare policies, unless preceded by the development of a national land policy and fiscal policies related to the flow of capital into productive land.

This kind of program may be necessary on a temporary basis but more positive solutions must be found for the problems of excess land capacity other than the negative approach of simply retiring land.

We have always supported and continue to support the use of the cropland adjustment principle for the establishment of present soil conservation practices along with other practices in the public interest, such as the development of wildlife habitat, watershed protection, recreational facilities, forest practices, and other practices which would permanently remove the land from the production of surplus agricultural commodities to other productive uses.

The National Grange suggests the establishment of a commission to develop and recommend a national land policy with proper consideration being given to the alternate uses and demands for land in various areas of the Nation.

We also suggest that the time is at hand when we must, in cooperation with our allies and trading partners, develop programs for the positive use of the productive capacities of American farms—as well as those of the rest of the free world—in an effort to reduce hunger in the emerging and food deficient areas of the world.

Senator YOUNG of North Dakota. As I understood Secretary Freeman's testimony when he appeared before this committee last week that he said under the land retirement program that the first land that the farmer has to take out of production would have to be his wheat allotment, his cotton allotment, or any other allotment or base acreage he may have. For example, if a farmer had 400 cultivated acres, and he put 100 acres in the land retirement program, as I understood it, this 100 acres would all have to come from allotments or base acreages. What does the Grange think of this?

Mr. GRAHAM. This makes more sense than the original soil bank program by a great deal. This, certainly, is a policy contribution to the thinking along that line, but the point that I was making is that even in this instance the marginal land will tend to flow into—I mean, the total of the marginal land will flow more rapidly into the program, than the more productive land. I do not think that there is any way around that one.

Senator YOUNG of North Dakota. Would it not make more sense and make the program more livable for the farmer if he were required

to take the same percentage of his allotment out of production as his total retirement represents of his total tillable acres? For example, if a producer had 400 cultivated acres and he put 100 acres into the soil bank program—that would be 25 percent of his cultivated land. Would that not make more sense to require that he put 25 percent of his wheat allotment or any other allotment or base acreage into the program rather than require retirement of the full 100 acres of allotment. I do not see how a farmer in my State could afford to take a part in this unless he quit farming entirely. He would be left with no crop that would be reasonably profitable.

Mr. GRAHAM. This is a part of the problem. For it to become effective means substantial expenditures of money. There is just no question about it. Whether it could be done cheaper this way than through the diversion program I do not know. I question that it could. The reason is that our diversion payments are applied directly to the production of crops in surplus. We know where they are going.

Senator YOUNG of North Dakota. The real problem under these programs, Mr. Graham, is that you only take the land out of production for 1 year.

Mr. GRAHAM. Yes.

Senator YOUNG of North Dakota. In North Dakota the farmer keeps that land idle in fallow for that year. It is put back into crop production the next year, and produces more than ever.

Mr. GRAHAM. And he summer fallows it.

Senator YOUNG of North Dakota. If you retire land for 3 to 5 years—for a longer period of time—you can make better use of it. I can see the benefit of a long-term land retirement program. Under the old soil bank program there was the weakness that the farmer did not have to retire any wheat allotment or cotton allotment. He could take his allotments and put them on the rest of his farm, thus retire some acreage without retiring any allotment. That was certainly wrong. But to require him to take his whole allotment out, I think, is equally wrong. It would not be workable. I think that the farm organizations will have to go into this matter in an effort to straighten it out. It would be useless to consider a land retirement program containing such a feature.

The CHAIRMAN. I understood the Grange was against it.

Mr. GRAHAM. The acreage retirement as such.

Senator YOUNG of North Dakota. You are against it?

Mr. GRAHAM. As proposed, even though it is considerably better than the original soil bank. We would prefer, if you are going to have long-term contracts that they be on the basis of the diversion programs that we presently have that are pointed directly at the surplus crops. If we can have a 5-year program under a cropland adjustment by a diversion program, I do not see any reason why we could not have a 5-year contract for diversion in wheat and feed grains. The reason escapes me for saying that you can do one, but not the other. This then means that we would direct it right at the problem which is the surplus of some of these commodities. It will cost money. This is one of the problems that the chairman is worrying about on feed grains, because this is where the cost is.

The CHAIRMAN. I wish to emphasize my reason for worrying is that if all of these programs continue to cost the taxpayers more money than it anticipated then it may affect the whole program.

Mr. GRAHAM. We are all concerned about that, too.

The CHAIRMAN. You have in the House of Representatives more Congressmen representing city folks than you have Congressmen representing farmers. I am just afraid that if we continue to increase the cost to the taxpayers that sooner or later they may revolt, and then give a black eye to, or vote out, the whole program, and that would be calamitous, so far as I am concerned. You may proceed, sir.

TRANSFER OF ALLOTMENTS

Mr. GRAHAM. The Grange recommends that legislation be enacted to permit the transfer of allotments of those crops which are under mandatory controls for the purpose of consolidating inefficient units into an efficient operation and that these transfers be permitted without the sale of the land being a necessary part of the transfer. We recommend that such a consolidation be limited to an efficiently sized operation as would be determined by the proper agencies in the areas involved.

The limiting of this acreage to the "average" size of farms in some areas would be only to perpetuate an inefficient size.

Consideration should be given to preventing the wholesale movement of allotments from one area to another and, in the case of Texas, consideration should be given to limiting this movement to a regional basis.

Without the privilege of the transfer by lease or sale of cotton allotments, the imposition of a cropland adjustment program would destroy the release and reapportionment features of the present cotton legislation. This provision is one of the most popular features of the present program.

We urge the Senate to give serious consideration to the solution of the problems already existing by the application of the principle of transfer by lease and sale of the allotments for the crops under mandatory controls.

COTTON

We would say in the terms of cotton which you will be considering—and I will say this right now, that any kind of a solution to the cotton problem, in our judgment, must begin with a permanent transfer of allotments, instead of temporary release and reapportionments, so that this moves into the hands of the bona fide producers whereby he can make his plans on the kind of a basis that will allow him to look into the future far enough to do something that is constructive. But the present one is so highly flexible that the producer has no alternative under the release and reapportionment part of it. This has to be done every year over and over again. And the man who gears up to produce 100 acres of cotton may not have 100 acres of cotton to produce the next year. So we have a risk of capital investment. So we believe that the transfer of allotments almost has to come into those costs. We are permitting some of it in tobacco in one way at the present time. We do not see any reason why it cannot be applied to some other crops. It cannot be applied, in our judgment, to anything except the crops under mandatory controls.

Senator JORDAN of North Carolina. You are thinking of confining that to the State—that it could not go out of the State?

Mr. GRAHAM. Texas has a real problem in that it is big enough for five States, and when it came into the Union, let me say, that it came in with the provision that it could become five States, as you will remember, if you remember your American history.

Senator JORDAN of North Carolina. I was not there. [Laughter.]

Mr. GRAHAM. I was not, either. East Texas is afraid of west Texas. We think that in Texas transfers could be limited to some areas—to five areas—because even that transfer within those areas would cover more distance than if you went from one end to the other end of the State in North Carolina.

In the longer statement that we will submit this is spelled out in considerably more detail.

(The supplemental statement on cotton is as follows:)

COTTON

We shall now consider the problems of the cotton industry. These had their beginnings at the end of the First World War when our two major export crops, cotton and wheat, lost a substantial share of the world market in the depression which followed World War I. During and after this time the American economy began to develop and expand more rapidly than that of other nations with its resulting high costs of production. At the same time, the farmers who depended upon export trade for a substantial part of their income, were faced with declining world prices and shrinking markets. The problems that have arisen from this situation have had temporary respite during World War II and the Korean war, but the deep-seated problems remain, and efficient and satisfactory answers to them still elude us.

In the case of the other major export crop, wheat, we were able to overcome many of these problems by the use of a two-price system, with a domestic certificate. This has been the most significant advance and constructive departure from older programs which has been adopted by this Congress in many years.

Unfortunately, this program cannot be used for cotton, because the foreign-made cotton textiles produced in this situation enter back into our domestic market in competition with our higher priced textiles which must be the result of a higher priced domestic and labor coupled with a price for cotton exports that is reasonably competitive in world markets.

Furthermore, as this committee well knows, the cotton problem is further complicated by the availability of competitive, synthetic fibers which can readily be substituted for, or mixed into, the cotton yarns. Therefore, both the price of imported textiles and the availability and price of synthetic fibers, mitigate against any appreciable increase in the market return which farmers may reasonably expect for that part of their crop which goes into domestic consumption.

The economic purists say that in such a circumstance the only thing to do is to permit the economic laws to work their inexorable way and to eliminate the production of cotton from our economic and political considerations. This suggestion, however, disregards the fact that a significant part of our American economic system is dependent upon a healthy and viable cotton industry, including not only the producers of the raw product, but the ginner, the presser, the spinner, the warehousemen, the millmen, labor, and the ultimate dealer and consumer.

The temporary dislocation of these economic factors in the recent past, indicates the severity of the shock to our economic system, which would be felt if we were to adopt a program to rapidly and permanently solve this problem on purely economic grounds. Again, as in most of the problems which we face in agriculture, and which are considered by this distinguished committee, the social prices simply are too high to be paid for a solution based solely on the economic considerations.

Last year, this committee and the Congress made a significant step forward toward the solution of this problem by the passage of the cotton section of the Agricultural Act of 1964. As a result of this legislation, the whole domestic cotton industry has received an economic transfusion that has brought renewed vigor to the industry. Mills have been modernized, wages have been increased,

consumption has increased by 900,000 bales, and we have been able to purchase precious time which is needed to enable the producers to make the economic adjustments which are mandatory as a result of the present situation.

Unfortunately, the program did not stimulate the export sales of the raw product, and also doubly unfortunate, was the fact that the cost of the program is considered by those responsible for the administration of the tax money as being too high. We are not willing to concede this latter point. We will concede that it is expensive if it is considered to be a farm program. However, as we have pointed out, this expense has been largely passed on to the handlers and processors of cotton, including labor, and little of it has accrued to the credit of the agricultural producers. Any criticism of the expenditures under this program should certainly be conditioned by a recognition of the widely dispersed benefits of the program.

The National Grange has also been and is, seriously considering the ramifications of this program and its relationship to the other farm programs and, as it usually does, weighing the present program, not only as it relates to the problem of the cotton sector of our economy, but in terms of its relationship to the rest of the farm programs. We do not believe that farm programs have been too expensive. However, we do recognize that the continual drumfire of criticism about the cost of the farm programs, part of it coming from the agriculture sector itself, has had its effect, and the political realities of today mandate that we must exercise every bit of prudence and judgment that is available to us. Political necessity demands that we must make a sincere attempt to reduce the cost of the programs to the taxpayer.

This, we have done in the case of wheat, and to some extent in feed grains. We have asked the producers to take the economic loss that was necessary in order to stabilize the industry and to reduce the opposition to the beneficial programs which they are privileged to participate in and to enjoy, and their sense of responsibility to the general welfare has led them to accept this position.

The attitude of the Grange concerning the cotton program is the same. While we are willing to defend this expenditure as justified and prudent, we also recognize the political implications of continually increased farm program cost.

After due deliberation, the 1964 session of the National Grange in Atlantic City, adopted a resolution which stated the position of the organization toward the problem of cotton, a resolution which largely originated in the North Carolina State Grange which had adopted it after the same kind of careful consideration which was given to it later in the national session. This resolution reads as follows:

“Resolved, That the National Grange urges the continuation of Public Law 86-172, which permits the release and reallocation of unwanted cotton allotment acreage each year; (2) we oppose the soil bank program for cotton acreage in any form either mandatory or voluntary; (3) that the National Grange favor for cotton the uniform reduction of the national allotment for keeping supply in line with demand if adjustment in supply is needed in 1965; (4) the National Grange favor adjustments in the laws and regulations affecting the redistribution of cotton acreage allotment in each county and State which will accelerate movement of it on a permanent basis into the program of bona fide cotton farmers, yet without being inequitable to any cotton allotment holder; (5) that the National Grange strongly oppose reduction in 1965 of the base cotton support price below 30 cents per pound Middling 1-inch at average location; (6) that the National Grange recommend extension by the next Congress of the cotton provisions of the Agricultural Act of 1964 for not less than 3 years; (7) that the National Grange favor retention of the parity principle in legislation affecting determination of the cotton price support; (8) that the National Grange urge increased USDA appropriations for acceleration of research on cotton production practices which will lower the cost of producing cotton with emphasis on eradication of the boll weevil.”—Resolution No. 347 by Caldwell.—Adopted.

The objectives of the Grange cotton program thus outlined are:

1. To strengthen the family farm;
2. To preserve farm income with minimum cost to the Government;
3. To increase the export markets, or to reduce surpluses; and
4. To balance our available supply with the market demand.

You will note that the resolution begins with a statement concerning the release and reallocation of cotton acreage. Without the availability of the cotton allotments which are historically credited to all of the States, and which are not presently being used by their owners, the family farm could not exist in

the areas of the Cotton Belt which are characterized by relatively small operations. Release and reallocation are absolutely mandatory for the maintaining of family farm income and for the preservation of the largest "dollar earner" for farms in many counties of the Nation.

You will also note that the Grange policy statement begins with an attempt to answer the problem which is created by the movement of production of an important agricultural commodity, out of an area into another producing area. Probably there is no place where the effects of this movement and the results of a failure to adapt the productive patterns of the area to increasing mechanization and technology so much as in North Carolina, and in general, the cotton-producing areas of the Southeast, although by no means confined to the Southeast.

The passage of Public Law 86-172, which the Grange supported, which permits the release and reallocation of the unwanted cotton allotment acreage each year was, and is, in our judgment a temporary answer to a more permanent problem. This law preserves the productive history in its original area and prevents sudden and dramatic shifts in our economic patterns. Other suggestions have been made concerning this acreage besides the general and unacceptable one that it be allowed to flow into more economically productive areas. These are the transfer by sale or lease of these allotments, and the application of the soil bank principle to this area.

The Grange has opposed the use of a soil bank in this area which has already taken the major share of the reduction in production of the total of the Cotton Belt. We have supported, and still support, the transfer of allotments by lease or sale, to enable them to be consolidated into efficiently sized units as the only reasonable permanent solution to the problem of the survival of the efficient family farm.

The problem of adjusting our concepts of retaining the release and reapportionment features of the present bill, using suggestions for a cropland adjustment program as a part of the answer, the use of diversion payments for not producing cotton on the allotments that are under 15 acres in size, and the recommendations of the Department which we have supported for the sale and lease of allotments, presents a rather complicated problem, but one which we do not believe is insoluble.

We believe that the suggestion made by Mr. Heidelberg of the Uplands Cotton Growers, Inc., represented a substantial concession on the part of the small producers and should have serious consideration. The heart of this suggestion is that the protective features of the program should be reduced to 10 acres, instead of the present 15 acres. In our own testimony, we shall consider the diversion payment concept a little later. At this time, we will only say that the application of diversion payments to the 10-acre-and-under allotments on precisely the same basis that it is applied to those larger, would solve the problem raised by the objection of the substantial, if not overwhelming, number of cotton producers who want to retain the release and reapportionment program.

This proposal would not permit payment for the retirement of whole acreages, but would leave the remainder of these small allotments for either planting or release and reapportionment. The determination of the use of this land, therefore, would still remain in the hands of bona fide cotton farmers. It would also have the added beneficial effect of making it more desirable on the part of the allotment owners to sell or lease these very small allotments that have no particular productive value for the present owners. This would then be moving toward a more permanent solution of the problem. Until these small allotments are consolidated into efficiently sized units, any application of acreage reduction principles will inevitably, and perhaps unfairly, shift the major share of the burden for these adjustments to the commercial growing areas with substantially larger acreages.

MINIMUM NATIONAL ALLOTMENT

We call attention again to the third part of the National Grange cotton policy statement, which says:

"Resolved, That the National Grange favor for cotton the uniform reduction of the national allotment for keeping supply in line with demand, if adjustment in supply is needed in 1965."

The National Grange has consistently held that production controls and production adjustments should be measured in terms of the marketing unit which is used for the commodity in question. We have also held, and we think that expe-

rience has proven us correct, that, in general, acreage controls have been an ineffective means of relating production to the demands of the market. Therefore, we would state, as a matter of principle, that we believe that any kind of controls that are placed on cotton should be measured in terms of bales rather than acres.

However, we are aware of the fact that the technological revolution in the production of cotton has not equally progressed in all segments of the country, and that until such time as this is reasonably well completed, that a premature application of this kind of control would work undue hardship on some areas of the country. This is especially true if the adjustments in terms of the size of the production unit which could be brought about by release and transfer of allotments were not already completed.

It is also apparent that the 16-million-acre minimum allotment is an unrealistic level. We are aware of the fact that cotton producers are now facing exactly the same problem which was faced by wheat producers in their attempt to preserve the 54-million-acre minimum allotment for wheat. This kind of a program got all of us in trouble and was one of the reasons for the increase in the carry-over of wheat, and we believe that it is also a reason for the increase in the carry-over of cotton. Obviously, something will have to be done to reduce the amount of acres which are being planted into cotton.

In this situation, it would appear to the Grange that the suggestions which have previously been made by Congressman Poage to apply the diversion payment principle which is included in the feed grains and wheat programs offers an opportunity for a compromise which should be acceptable to all parties and which would help us bridge the period of time which is required for the other adjustments which might be obtained by the consolidations of inefficiently sized acreages. We would, therefore, approve and support the use of the domestic allotment payments as diversion payments. These might be based on a gradual scale of 4 cents per pound for those who would reduce their production by 20 percent, 5 cents per pound for those reducing their production by 30 percent, and 6 cents per pound for those reducing their production by 40 percent. These are not hard and fast figures, but are subject to the cost interpretation that might be placed on them by the experts in the Department of Agriculture.

We would emphasize that these payments should be available and made for all sizes of allotments, without any regard to previously established minimum acreage requirements. We would also emphasize that, until the previously mentioned inefficiently sized acreage consolidations are affected, that there should be no payments made for the retirement of whole allotments.

In the case of the allotments which are underneath an established minimum size, and in order to continue the family-sized farm operation which has come to be dependent upon the release and reapportionment principle, legislation permitting this reduction just recommended should also permit the holder of the small allotments the option to privately negotiate with those who would desire release and reapportioned land and to make a payment to the one from whom this allotment would be temporarily transferred of an amount equivalent to that which the Government would pay for the reduction of production, thus being able to avail himself of the necessary allotments. Again, we would say, however, that this should be only a temporary expediency which should be eliminated as soon as a minimum amount of time which would be given to an opportunity for the initial consolidation of inefficiently size acreage, would have elapsed. The permanent adjustment of this problem must not be necessarily delayed.

SUPPORT LEVEL

The Grange objects to any support level below 30 cents per pound, middling 1 inch at average location. The 29-cent loan level for 1965 simply removes the possibility for profitable production of cotton in any but heavily subsidized areas where Government water is available. Any lowering of agricultural income below its present levels in any segment of our agricultural economy is unjustified, unwarranted, and unacceptable.

We are aware that this creates some problems in terms of both our foreign trade levels and our domestic manufacturing programs here in the United States. We do not believe, however, that we can eternally answer all the problems of foreign trade and industrial production costs on the basis of further reduction of farm income.

We would, therefore, recommend a continuation and expansion of the payment-in-kind program for our domestic mills, to enable them to be competitive with textiles imported into this country.

At the same time, we recognize the necessity for the Commodity Credit Corporation to have some flexibility in terms of its ability to meet the market demands and competitive situations that are part of our international trade. We are, however, strongly opposed to any attempt that might be made to enter into an economic warfare with the producers of foreign cotton for the export markets of the world.

As is the case concerning wheat, it would be absolutely impossible for us to reduce our prices, in any reasonable amount that would enable us to capture the markets of the world. Indeed, it would be an economic attack upon our friendly allies, or the nonaligned nations.

The Grange would prefer in this situation, as it has expressed itself in other comparable situations, that we begin to explore the possibility of international trade agreements affecting cotton, the same as those which have already been concluded and are effective in the case of wheat and coffee. In the meantime, some flexibility in export pricing and some export subsidies are, in our opinion, the best temporary expediency.

It is of interest to note that much of the pressure to go into an unrestricted, direct-payment program for the difference between the price established by the so-called market system and any preestablished, desirable level of price return for the commodity, has been led almost entirely by the shippers and merchants' association. We, of course, believe that the shippers and merchants have a function to perform in our economic system. We believe they have a right to a reasonable profit for the service which they render to our economic community. We are not in agreement that the best interests of the Government, the producer, or even the shippers and merchants themselves, is always served by an expansion of the opportunity to speculate and, therefore, to manipulate the market.

Furthermore, the same argument that can be used at the present time against the costs of the present programs, would, undoubtedly, be raised against any such program which this Congress might establish by legislative action. Those who are our friends today, and support a substantial tax expenditure in an attempt to establish a direct-payment program, once having accomplished their own ends, might silently assent to the reduction of the income level after having made these incomes entirely dependent upon, not only congressional authorization, but more critically, upon congressional appropriations. We prefer to take our chances with the evils which we know, than to flee to those which we know not. This distinguished committee in its examination of the witnesses proposing such a program, has in our opinion, established the hazards of such a course. We simply want to add our voice to whatever conviction you already have concerning this course of action.

This program, which we have outlined for the committee with your generous cooperation, is not perfect nor the ultimate answer. We do believe, however, that it contains certain elements which will enable the cotton industry to buy enough time to make the technological and production adjustments which are mandatory before a permanent solution of this problem can be obtained. We do not believe the program will be as inexpensive as some of our friends in other parts of Government would desire. It is even more expensive than we would prefer. But we do believe that the economic well-being of vast areas of our country will be sufficiently well served and the general welfare of our Nation will be advanced by a sufficient amount to justify this expenditure.

We also dare to believe that this program if enacted, would meet the stated objectives of the National Grange and our longtime goals of maintaining producer income, reducing Government costs, reducing Government stocks, and increasing the use of cotton for textiles both at home and abroad.

APPENDIX A

WASHINGTON, D.C., *March 2, 1965.*

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to your request of February 12 the Grange would like to make the following observations concerning the 1965 Economic Report of the President.

Our first observation would be that the report reflects in its content and emphasis, a statement which was reported to this office by one of our friends who had visited with some of the staff people of the Council of Economic Advisers. They reportedly told him that since the problem of agriculture was so complicated and since opinion was so varied as to a program to correct the low farm income situation, they did not know what to recommend as a solution. Therefore, they were going to disregard it and confine their efforts to those areas of our economic life that they knew something about and about which they could reach some conclusions.

In this report, meaningful consideration of agriculture seems conspicuous by its absence. There are casual references to it and there are some interesting tables. But, the only serious consideration that was given was on page 113 in the discussion of the Kennedy round in the GATT.

Failure to come to grips with the serious problems facing American agriculture, which have contributed some to the problems of persistent unemployment and a less than satisfactory growth in our gross national product is, in our judgment, a failure to recognize that the problems of agriculture are interrelated with the economic problems of the United States; and indeed, the rest of the world.

The report starts out by stating that:

"The gains of 4 years of uninterrupted economic expansion have brought fuller pay envelopes, greater sales, larger dividend checks, higher standards of living, more savings, and a stronger sense of security than ever before. Industrial production of all goods and services (valued in cost and prices) increased at an average rate of 5 percent (table 1). These gains brought jobs to 4 million more persons and raised total consumer income after taxes by 6 percent a year. All of this was accomplished with essentially stable prices" (p. 35).

What the report does not say is that the stability of prices has been achieved largely at the expense of agriculture. While the consumers' price index was rising for all items a total of five points from 1960 to 1964; it increased by only 2.6 for food. Compared to that, services (less rent) increased by 9.4 percent. This is despite the fact that not only does food with all its built-in services today cost less of the consumer dollar than ever before, but the farmer's share of this food dollar is also at the lowest point in history.

Net income to farm operators has dropped from \$13 billion in 1963 to \$12.7 billion in 1964 despite a \$100 million increase in the net inventory which was almost entirely the result of the increase in real estate values. Their livestock inventory dropped \$1.5 billion; household furnishings dropped \$300 million; U.S. savings bonds investments dropped \$200 million; the index of prices received by farmers dropped from 98 to 97 and the index of prices paid by farmers rose from 102 to 107 (table 74).

From 1960 through 1964 farm population dropped from 15,635,000 to 12,954,000; or from 8.7 percent of the population to 6.7 percent for a drop of 17.3 percent.

During this same 5-year period the number of hired farmworkers declined from 1.885 to 1,604 million, a drop of 1.43 percent. The effect of this decline was almost offset by an increase of wage rates from an index of 109 to 119.

This decline of hired farmworkers was accompanied by a decline of family workers from 5.17 to 4.506 million or two-thirds of a million. A total of displaced farm laborers supplied by both the farm family and the hired workers during this period was 947,000 people. This represents 26 percent of the persistent unemployed in the Nation. When we consider the fact that a considerable portion of this outmigration from the land has been rural people who are poorly prepared to work in our industrial and urban society, its effect on our attempts to reduce total unemployment becomes doubly apparent.

As a result of this outmigration, farm labor inputs have decreased from an index of 92 to 81. At the same time farm production indexes have gone up from 106 to 111; and the total index of inputs has risen from 101 to 103. The big increases have been in fertilizer and lime (110-137), feed, seed, and fertilizer (109-123), but with a relatively small change in the inputs of mechanical power and machinery (100-101).

Comparing that to the war years from 1942 to 1952 we find that the parity index ranged from 105 in 1942 to 100 in 1950. During that period the index of inputs for mechanical power and machinery increased from 48 to 80. During the Korean war the parity index increased to a high of 107 and back to 100 at the end of 1952. The machinery index for inputs increased from 86 to 96. In other words, the index for inputs for machinery doubled during the 10 years from 1942 to 1952. The maximum contribution of this factor to the economic

growth and the increase of the gross national product for our country should be obvious.

For a comparison let us now look at what happened after the Korean war. The parity ratio declined 8 points from 1952 to 1953. It has continued this downward movement; until at the end of 1964 it stood at 75.

The index of prices paid by farmers for machinery increased from 87 to 117 during the same period of time; however, the index number of inputs for mechanical power and machinery has risen only from 97 in 1953 to 101 in 1962 where it remained until it reached 102 in 1964. This is a change of only five points. Now when we look at the inputs for farm labor again which declined from 136 in 1952 to 81 in 1964, it should be obvious that there should have been a normal corresponding rise in the inputs for farm machinery.

During the period of 1942 to 1952 the value of farm machinery rose from \$4 billion to \$15.2 billion, an increase of \$11.2 billion in this 10-year period. Despite the fantastic increase in technology and the obvious necessity for an increase in the mechanical equipment to carry out this technology, the value of farm machinery has risen to only \$19.8 billion or an increase of \$4.6 billion during the 12-year period following the end of the Korean war. An inventory increase of \$1.12 billion per year declined to an average of \$380 million per year.

Had the farm segment of the economy continued to purchase automobiles and farm machinery at the same rate that their purchases increased from 1940 to 1952, the inventory for machinery would have increased by about \$10 billion, and farmers would have spent over \$85 billion more for farm machinery and automobiles than they did in 1953-64.

The recent survey taken by an officer of a wheat growers' association in Idaho shows that the average age of the tractors and the combines in that area is about 10 years. It also shows that if the wheat income is not increased, only 3 of the 98 who replied to the questionnaire will be able to purchase a new tractor this year. If the price of wheat were raised to a parity level for that part which is consumed domestically, more than half of them would purchase new tractors this year.

The inability of farmers to purchase needed hard capital goods also of necessity must increase the price of that equipment. The advantages of spreading fixed costs over high volumes of production are denied to the manufacturer. And the assessment of the fixed cost to fewer units obviously has increased their price, and at the same time made it more difficult for the consumer to purchase this needed equipment.

Another way of comparing what is happening to agriculture and the rest of the economy is to note that in 1952 disposable per capita income was \$1,781. By 1964 it had increased to \$2,248, a per capita increase of \$467. During this same period of time per farm income rose from \$3,279 in 1952 to \$3,656 in 1964, a per farm increase of \$375, a total per farm increase of \$92 less than the per capita increase in the nonagricultural sector of our economy.

If agricultural income could be raised to parity, the total increase in farm income would be about \$12.2 billion. This is the equivalent of 74 percent of the purchasing power generated by the total \$16.1 billion of all cash exports in 1963.

If the same rate of increase in farm income that we experienced from 1940 to 1952 had been maintained for the next 12 years we would have added over \$100 billion to the gross national product; thereby avoiding the necessity of all support program costs. The total national income for 1964 would have been in the area of \$522 billion, without considering the stimulus that the multiplying effects of this income would have had on the remainder of the economy.

As a stimulant to our economic growth and our GNP this would exceed the effect of tripling our export markets, added to the effect of the tax cuts which have recently been enacted. This kind of economic growth would have obviated the need for a tax cut, and most of the need for an antipoverty program, as well as for much of the expenditure for Government welfare and relief programs, directed both to our urban and farm populations. All this would have left a substantial amount of money in the Treasury for the reduction of the Federal debt.

Furthermore, it would have given to the farmers sufficient income to permit them to limit their production of commodities that are in surplus without severely cutting back on their living standards. It would have allowed them to continue to service their indebtedness without being compelled to increase their production; thereby producing more and more for less and less.

The almost forgotten economic fact of life, regarding agriculture, is that when the cost price squeeze increases, the first reaction of the farmer is to increase production. As he increases production, according to the price wage guidepost on page 108 of the report, prices decline in an industry with greater than average productivity gains.

The resentment of farmers against production controls rises largely because these controls in general have served to decrease farm income, when this happens in a situation where the cost of production is higher than the selling price of the product. During the period of declining prices and income, which began in 1953, farm production actually increased as is reflected in a rise in the production index from 93 to 111.

Therefore, we see that the law of supply and demand, which presumes that production will decline when prices decline, does not work in the farm segment in anything like a short-run application. Indeed, it scarcely works at all in its classical theory when a major segment of the economy, as is agriculture, is economically out of balance with the total economy, and when supply and demand are thus out of balance. Like a teeter-totter, it works best when there is relative balance between supply and demand and the teeter-totter can work both ways. Once the supply end of the teeter-totter has been increased to the point that a balance is hard to achieve, then the game automatically comes to an end.

The history of agricultural production also indicates that, where there is a substantial indebtedness and fixed charges for servicing the debt and carrying on the operation, that the classical concept of economics which holds that the farmer will not increase his production when the marginal costs of production exceed the return for the product is not necessarily true. The increase of the production of milk in the central northeast where the marginal costs of production are from 50 cents to \$1 in excess of the returns for the milk produced is below the cost of production for much of the year, is an example of the fallacy of the so-called economic rule concerning marginal production.

We hold that it is also a provable fact that a great deal of the outmigration from the land was the result of inadequate prices, which are the basis for inadequate income. The reduced labor force has been replaced, as has been shown not by increases in mechanization, but rather by increases in the hours of labor on the farm. Some of the men and their families that work 80 and 90 hours per week are not doing it because they have nothing to do except work. They are doing this because they have inadequate mechanization, which is the result of inadequate incomes and inadequate purchasing power.

The net result of the continued disparity between the income levels of the agricultural and nonagricultural segments of the economy has resulted in the substitution of credit for earnings with the result that the index of farm mortgage debt has increased from 100 in 1950 to 249 in 1962. The non-real-estate debt index has increased from 100 to 235 during the same period.

All farm debt has increased from an index of 100 in 1950 to 362 in 1962. However, the production assets have only increased from 100 to 271. In other words, during the 12-year period the debt index increased 262 points while the asset index increased only 171 points.

The picture would be much worse if it was not for the fact that most of the increase in assets results from increased valuations on farm real estate.

Revised estimates of the total amount of real estate farm debt and non-real-estate farm debt held by reporting institutions has increased from \$2,834 million in 1950 to \$9,465 million in 1964. Of equal significance and more hazardous to the financial structure of American farms is the fact that the debt held by non-reporting creditors, including merchants and dealers, consumers and sales finance companies, and various nonreporting lending institutions, individuals, and miscellaneous creditors, have increased from \$2,320 million in 1950 to \$6,720 million in 1964. It is also significant to note that this last figure compares with an earlier estimate of \$4,500 million for debts held by nonreporting creditors. In other words, these debts are \$2,220 million more than it was believed prior to a recent revision of the estimates. Much of this latter group of nonreported debts is of a relatively short-term and high-interest character. The hazard is that many of these are demand debts and exceptionally expensive to service, further decreasing net farm income.

The problems of rural America and of our total economy cannot be solved by substituting credit for earnings and relief for employment. Neither can they be solved by shifting farm income to rural antipoverty programs.

Mr. Chairman, and members of the committee, what we have tried to point out is that the problems of agricultural income are deeply interrelated with the problems of a less than desirable rate of expansion of our GNP, the problems of reducing our unemployment rate, the problems of taxation and fiscal policy, the problems of high concentration of poverty in rural areas, the problem of out-migration from the land and the transfer of the problems of poverty to the urban areas with all the multiplicity of the resultant social problems, the problem of an inadequate tax base to provide educational and other personal services to rural America, the problem of delayed retirement on the part of our agricultural producers and the consequent high age level of those who till the soil, and the more critical problem which we shall face in the future of the replacement of our agricultural producers by young men who cannot see enough profit incentive at the present level of prices to entice them to make the investment of time and money that is required for the small output that can be realized from the high level of inputs of both labor and capital.

It is the earnest desire of the National Grange that you and your distinguished committee give adequate attention to this critical problem of our American economic life in your preparation of the report of the Joint Economic Committee.

The National Grange and its staff stand ready to render whatever assistance you may care to request at the convenience of the committee.

Respectfully,

HARRY L. GRAHAM,
Legislative Representative, National Grange.

Mr. GRAHAM. As to rural water and sewerage, the most critical problem facing America in the not-too-distant future—and not confined to urban areas—is a problem of the supply of water in adequate amounts and of acceptable standards. A beginning must be made in controlling the pollution of our streams at their headwaters. The lack of sanitary facilities and water systems in rural areas is a matter of increasing urgency.

S. 1766 is an excellent proposal to make the same Government facilities available for rural areas as have long been available to our urban fellow Americans. It has our enthusiastic endorsement.

Because we see real opportunity to develop the pending legislation before this committee into a further sound and constructive advance toward the kind of food and agriculture policy in the United States that will serve American farmers and the Nation as a whole, and at the same time will improve the prospects of the United States being an even greater and more constructive influence on the food and nutritional problems, as well as on trade relations of the world, we pledge the best efforts of the Grange to work with the committee in any way that it may be helpful.

The CHAIRMAN. Very well. Are there any further questions? If not, we thank you, Mr. Graham.

Mr. GRAHAM. Thank you.

(Supplementary statement submitted by Mr. Graham is as follows:)

STATEMENT OF THE NATIONAL GRANGE ON AGRICULTURAL LEGISLATION AND RELATED SUBJECT MATTER

THE PROBLEM

Early this month the world paused to witness a spectacular display of modern technology, the launching into orbit of the Gemini project and its successful completion. When we consider the infinitely complex mathematical and engineering computations, coupled with unerring human judgment, which were a part of the perfection of this latest as well as previous launches into the far reaches of space, we are given reason to hope that the solution of problems as complex as those before this distinguished committee can be solved rationally, constructively, progressively, and in the best interest of both producers and

users of agricultural products. The results may not be as spectacular, but the benefits should be as long lasting.

There is no single farm problem. What we have confronting us, as agricultural leaders, in the private sector and in the government today is a combination of economic and social problems, as well as problems of domestic politics and international trade.

The economic problem is characterized by the "cost-price squeeze." It is inextricably interwoven into social problems, particularly in areas where producers are trying to eke out a living on marginal land and on marginally sized farms. These problems find their expression in underemployment of the resources that are committed to agriculture, unemployment in areas where alternative sources of employment have not been made available, migration, the instability of the social institutions left behind, and the vastly increased problems of the social institutions into which many of these former agriculturally employed people have migrated.

The domestic political problem rises from the fact that, in general, farm people and much of the public have been misled into believing that only two alternatives are available to American agriculture: Either the farmer must become dependent upon Government for his income, or he must become subservient to a "free market." Deep philosophical cleavages have arisen which leave the public servant engaged in agricultural legislation and administration with a considerable amount of opposition, regardless of the decision he makes. The Grange is, therefore, continually grateful to the members of this distinguished committee for the courage, statesmanship, and judgment they display under such adverse circumstances.

As expressed repeatedly by resolutions developed on a "grassroots" basis after much careful and sometimes tedious consideration, the position arrived at by the delegates indicates that the Grange is not in favor of either of the drastic alternatives being presented to us. Instead, we prefer a modification of both of these views with some dependence upon the market, but not exclusively so, and with some dependence upon the Government—but not exclusively so in this area either. Although this position is more difficult to define, it is to all intents and purposes a third or a middle way in which we believe the majority of the American people want to proceed.

THE HISTORICAL BACKGROUND

The problems of agriculture are as old as history itself. You will remember that it was the drought in Canaan and a surplus in Egypt that caused the migration of the Israelites to Egypt when the channels of trade could not supply the needs of the Hebrews while they still resided in Canaan. Rome fought its Carthaginian wars to control the wheat-producing area of northern Africa, which, incidentally, has since become a desert. The Roman Empire used production controls to prevent collapse of the market. A very simple method was used for reducing the production of competitive wines in the provinces; they simply sent out the Roman legions to chop down the vineyards.

On the other hand, in order to be able to feed the empire, the Romans poured thousands of sesterces into Britain to develop British agriculture in the midlands, and this subsidy was the basis for the continuation of a close relationship between Britain and Rome that lasted for 600 years after the withdrawal of the Roman legions. The basis of English agriculture and, to some extent, the background of American agriculture was in the subsidy which the Roman Empire placed in the hands of the Italian farmers who had migrated to Britain.

The availability of food built strong empires; the shortage of food caused them to collapse. Demands for food created world trade and was the basis for the expansion of European countries into colonial empires. It was the development of American agricultural productiveness, which created sufficient surplus over domestic requirements to permit exportation to England and the other European countries, that laid the foundation for a prosperous America by accumulating enough capital to enable our country to accomplish the technological revolution which led to the industrialization of America and its leadership among the industrial and agricultural nations of the world.

This was made possible because of the ever-present demand for food. While there has always been a shortage of food among the primitive peoples and even among the most advanced countries, the balance between market supply and continual demands was only occasionally attained and, more frequently destroyed by famines due to crop failures.

It has only been within the lifetime of the organization which I am privileged to represent here today that the supply of food has finally equaled the demands of the cash markets of the world. During my own lifetime, and for the first time in history, we have been able to develop a surplus of basic agricultural commodities in the world markets.

Markets for agricultural products have traditionally and historically suffered the widest fluctuations due to the economic cycle. Many factors have entered into market pricing that had little to do with supply and demand. For instance, at the beginning of the Granger movement, there was a shortage of grain in Europe and a surplus in America, but the monopolistic manipulation of railroad rates prevented shipment of much of the American grain, and most of the market return was absorbed in transportation costs. So, in the midst of a strong world-market demand, American farmers are suffering from a prolonged and serious depression.

In fact, only twice in recent American history has there been a balance between supply and demand, with a resultant fair market price being realized. The first time was during the so-called "Parity Period," from 1910 to 1914. This has remained the norm for all agricultural-industrial relationships since that time.

The eruption of World War I in Europe and the ultimate embroilment of the United States and the rest of the world in this terrible conflict forever changed the productive patterns of the world, and the disruption of the market and peoples has continued.

The advent of mechanized agriculture came to America at the same time as the demands for food during World War I, and the result was the plowing up of millions of acres for crops—acres which were best suited to grazing and conservation uses. The capitalization necessary for this technological revolution made it difficult, if not impossible, to restrict production to the point where it would equate market demand following World War I.

American agricultural problems began when our two major export crops, cotton and wheat, lost a substantial share of their world market in the depression which followed World War I. During and after this time, the American industrial economy began to develop and expand more rapidly than that of other nations with its resulting high costs of production. At the same time, farmers who depended upon export trade for a substantial part of their income were faced with declining world prices and shrinking markets.

Many of us remember the economic shock to America as a result of the rapid and precipitous decline in agricultural prices immediately following the cessation of hostilities of World War I. The depression of our agricultural community that followed, which was related to the worldwide depression at that time, engulfed the American industrial community and plunged the whole Nation into economic chaos in 1929. American agriculture lost \$35 billion in equity during this time, a loss from which it has never fully recovered.

We would remind this committee and the American public that as a result of development of a dual economic structure in America, in which industry and wages had their profits improved and protected by legislation, American agriculture and its earnings have continued in a relatively depressed state since 1920. This is simply the result of the American farmer being forced to buy on a market articles that cost him 100 cents on the dollar, and then having to sell on a market where the products he has to sell are severely influenced, if not dominated, by depressed world prices—prices which are substantially below American wage and income levels.

Consequently, American agriculture has not reached a parity position but once since the end of World War I—during the period of hostilities which engulfed us during World War II and the Korean war. Prices have not been at parity since the end of the Korean war.

We would remind you also that the only time when agriculture had an opportunity to recover from its loss of equity and income was during World War II, and it was during this period that ceilings were put on agricultural prices which prevented this recovery.

We remember with gratitude that this committee was responsible for writing into agricultural legislation during that period the provision for continued support of agricultural commodities at a relatively high level for 5 years after the end of the emergency period. This action, and the subsequent action of Congress, prevented the complete collapse of agricultural prices which would have been inevitable under a free marketing system, wherein the supply of agricultural commodities was far in excess of the market demand.

THE FINANCIAL STAKE IN A PROSPEROUS AGRICULTURE

While attempts to maintain and improve the income and purchasing power of most of our economy have been proceeding with imagination, creativeness, and considerable success, failure to have maintained an adequate income for American farmers will go down in our economic history as a major defeat and the primary cause of the sluggishness of the economy due to inadequate purchasing power and persistently high unemployment.

Our European friends have repeatedly pointed out to us that there is no government in Europe that could stand the economic pressures generated by the agricultural problem that has faced the United States. Indeed, despite the fact that their supports are considerably higher than those in America, both the governments in Paris and Bonn have been plagued by repeated strikes on the part of their producers.

Our economic growth has been sufficiently rapid to absorb either the out-migration from agriculture or the increasing number of available employees due to our population increase. It has not, however, been rapid enough to absorb both at the same time.

We have spent billions of dollars in the development of oversea markets and in foreign aid. These foreign markets for agricultural products are essential to the stability of the American farmer and, in turn, our American economy, because agriculture still remains the largest earner of dollars from abroad of any of our exports. However, if agricultural income could be raised to parity, the total increase in farm income would be about \$12.2 billion. The purchasing power thus generated would be the equivalent of 74 percent of the total \$16.1 billion of all cash exports in 1963. We would not dream of pursuing a policy that would destroy the effect of three-quarters of our cash exports, even though we have pursued policies that do the equivalent of this in the decline of farm income.

Had the farm segment of the economy continued to purchase automobiles and farm machinery at the same rate their purchases increased from 1940 to 1952, the inventory for machinery would have increased by about \$10 billion, and farmers would have spent over \$85 billion more for farm machinery and automobiles than they did in 1953-64.

We should note that in 1952, disposable per capita income was \$1,781. By 1964 this disposable per capita had increased to \$2,248, a per capita increase of \$467. During this same period of time, per farm income rose from \$3,279 in 1952 to \$3,656 in 1964, a per farm increase of \$375. Thus, the total per farm increase was \$92 less than the per capita increase in the nonagricultural sector of our economy.

Rather than to put continual emphasis upon the cost of the Federal farm program, an emphasis which, unfortunately, has been more dramatically etched upon the public mind than the cost of any other segment of our economic life—largely because one part of American agriculture has been so vociferous about this—we should be thinking about how much it has cost us and our economy for failing to provide an adequate return to the farm people for the contribution they have made to our national and international life.

I am attaching, as appendix 1, a copy of a more detailed study that we have made concerning this problem, and which we reported to Hon. Wright Patman, chairman of the Joint Economic Committee.

INCOME OBJECTIVES OF THE GRANGE

It is easy to say, and I believe we are all in agreement on this, that the income objectives should be the return to the producer of agricultural commodities of an income that bears the same relationship to the major factors of production—labor, risk, management, and capital—which would be received for these same factors in any other segment of our economy. The attainment of these objectives and the methods by which they are obtained are points of major disagreement.

Where the disparity is the result of legislative action on the part of the Congress, and the implementation of this legislative action on the part of the administration, then it seems obvious to us that the relief must be found at the same source where the problem was created.

It appears obvious to us that the takeoff of American industry through the technological revolution into an age of automation, and the resulting income to both labor and industry which is far out of proportion to the income for these

same factors in other segments of the world, would have been impossible without the legislative assistance that was given to labor in the beginning of the 1930's and which had been available to industry through protective devices in our tariff laws since the beginning of our history. The enactment of minimum wage and hour legislation, coupled with the advantages in the Wagner Labor Relations Act, gave labor a bargaining position which it had never previously had and which resulted in increasing shares of the wealth created by American labor being returned to the laborers themselves. The stimulating effect of this increased purchasing power to our economic growth is as yet immeasurable, but it is enormous.

These two acts effectively repealed the law of supply and demand as far as labor is concerned. The surplus of labor, and that is what our unemployment figures represent, has been underwritten with a "labor support" program in the form of unemployment insurance. Although this has been costly to the employer, the fact remains that it has been a major item of governmental cost in years past. No one argues with any success now against this kind of beneficial legislation. No one suggests with any hearing at all being accorded to such a suggestion that we return to the law of supply and demand in our labor and wage policies. Yet, this is precisely the situation that has been largely responsible for the inequity between farm costs and farm income.

We have protected the surplus of domestic labor by our union shop laws, and we have protected it from the pressure of foreign labor by our immigration policies. What we have been able to do as a result of this is to establish American labor returns at a considerably higher rate than they would be if they were set at world levels. This has all been done legislatively.

The position of the Grange is not to reduce the welfare of labor nor its income. What we are proposing to this committee and the public at large is the necessity of using governmental devices in some instances to return to American agricultural producers a fair price for their products.

We, therefore, now need to develop programs that will protect the domestic market for agricultural products from the surplus of agricultural products which are produced in the United States or those which would come in from other countries, although our primary problem is with our own surplus.

In the case of wheat, we made a very significant beginning in the passage of the certificate program. The action of the Congress last year did not, of itself, increase the cost of bread. The price of flour in Kansas City has remained either below or at almost the identical level of a year ago through the whole of the marketing period from July 1, 1964, to the present time. There has been, however, as the baking industry warned us there would be over a year ago, a 1-cent increase in the price of bread. The argument that was proposed last year to the effect that this constituted a bread tax has not in fact been true, as the record proves.

On the other hand, we need to continue and expand this program and make it accomplish that which it was designed to do in the first place—to return a parity income to the wheat producers for that part of their production which is consumed as human food on the domestic market. This, of course, has to be done as an act of Congress, if it is done at all. The ultimate user of the product will, of course, pay for the increase. There is no attempt to deny this. But this is consistent with the action of the Congress in its relationship to industry and labor.

No one asks when Congress increases its own wages, increases the wages of Government employees, increases the wages of the Armed Forces, or the armed services, or increases minimum wages, if this is going to result in added costs to the taxpayer or the ultimate consumer. It is, of course, and rightfully should. All costs of Government are borne by the citizens in the form of taxes, just as all costs of manufacturing are borne by the eventual user of the product. Any argument that members of the affluent society of which we are a part cannot afford to pay for their basic necessities in the food field simply is spurious. There are some people who are living in relative hardship, and we are aware of this, but they are welfare cases who are taken care of both by welfare and, in the lower income group, by the expansion of the food stamp plan which we have supported all along.

Any program that limits the prices of agricultural products to the level that the impoverished people of America can afford is not acceptable to the National Grange, and should not be acceptable to the Congress. The answering of the social and welfare problems of the underprivileged in America by creating other social and welfare problems in agriculture, as we have been doing, is unrealistic.

The fact is that it is doomed to failure and is completely inconsistent with the broad purposes which this administration and, I think, the American public have adopted.

This certificate program can work in solving much of the problem facing wheat producers. It also can work in the case of rice. It could work in the case of tobacco and in the case of milk with minor adjustments in the covering Federal milk marketing orders.

It cannot be applied to cotton. The fact that the cotton which is exported from the United States can be reimported in the form of cotton textiles to compete with that which is produced by higher priced American labor makes the application of this principle impossible. It does not, however, relieve us of the responsibility of seeing to it that the producers of cotton receive an equitable return for that part of their production which is consumed on the domestic market. If it is unrealistic to protect our domestic mills from the importation of foreign textiles, and we believe it is, then the only recourse to us is to expect that the Federal Government will assume some responsibility for that level at which it is willing to support cotton and the price that should be received for its production. The Grange is not willing to concede this principle. We are willing to discuss the methods, as we shall do before this committee.

It should be noted in passing that the difference between crops in difficulty and those agricultural products from which the farmers receive a reasonable return from the market is not whether there are controls: the difference is the fact that that one group of products is heavily influenced by the competitive markets of the world and the other is not.

To say that the livestock industry has no support is begging the issue. When they ran into difficulty due to their own overproduction a year ago, the Government of the United States spent over \$200 million in a price support and stabilization program. But the fact is that the livestock industry is quite effectively supported by the feed grains program; the stability of the industry is directly related to the stability of the prices for feed grains.

The cyclical fluctuations in the prices of both beef and pork products have been the result of the industry trying to make its own adjustments, and they have been rather successful in getting this done.

If the fluctuations which we have seen in the past few years are considered to be undesirable, then we would point to the not too distant past when there was no support for feed grains programs and when the continual reduction in the price to farmers for these products led increasing numbers of farmers into the production of meat products, with resulting catastrophic and chaotic conditions existing in the feed grains and meat industry.

As an Illinois farm boy, I well remember when pork brought 4 cents per pound, and when we offered corn for 10 cents per bushel—and had no buyers. There is, however, no reason to believe that it should be necessary to have anything except occasional purchasing programs for animal products as long as we have a stable situation regarding feed grains. The only exceptions to this statement are in the dairy and poultry industries.

THE PROBLEM OF EXPORTS AND FOREIGN RELATIONS

The abundance of American agricultural products and the wise use of our surplus have been a keystone of American foreign policy. The change in our foreign policy is dramatically illustrated by the different methods we used in handling the war-created surplus capacity and the resulting production after World War I and again after World War II.

After World War I, American farm prices were allowed to drop drastically and dramatically. They continued to decline for some 10 to 12 years, reaching disaster levels and pulling down with them the agricultural prices of the world. American farmers, as we have pointed out, went bankrupt by the millions. My own father was one of these. The collapse of the American economy in the late twenties and early thirties is largely attributable to this as was the worldwide economic depression, which some of us remember.

During World War II, or when price limitations were imposed upon agricultural commodities, price supports were also guaranteed as a part of the package deal for a limited period after the cessation of hostilities and the termination of the state of emergency. The American people, some of them quite grudgingly because they had forgotten that they enjoyed maximum protection against what would have been justified increases in agricultural products had they relied upon a free market, did assume the responsibility of purchasing the surplus commodi-

ties that were produced on American farms, placing them in Government storage and then releasing them for the market as the world market could absorb them. This sale was accomplished with constraint in order to prevent bankruptcy for some of our friendly allies. If the fact needed any demonstration, this should convince our trading partners in the world that the American farmer and the American Government are not determined to pursue a policy of economic aggression against all the helpless peoples of the world. Actually, the reverse was and is true.

In order to further emphasize this, we made available through Public Law 480, vast quantities of foodstuffs which were distributed—wherever there were agencies to distribute them—to the needy peoples of the world. Indeed, we even set up agencies to accomplish this worthwhile purpose. Unfortunately for the American farmer, the economic protection that we had afforded to other markets was not as available to the American producer.

What really happened was that, as a part of our national policy, we did retain in Government storage quantities of stocks that had a very depressing influence on the market. The cost of maintaining these stocks, again in the national interest, was all charged to the agricultural sector in terms of budget reference, and a public outcry began about the cost of farm programs. This led to a continuing decline in the support level of these products and with this a continual decline in agricultural income. Such a policy also led us to become the residual supplier of the world food markets and, in some instances, the residual market for world food surpluses.

The Government of the United States properly recognizes its responsibility concerning the development of stable economies in much of the world—certainly that which we call the free world. The American farmers have recognized that they also have a stake in this and are willing to make their contribution, as they have done. But the time has come when we no longer can accept a continued lowering of our agricultural income in order to underwrite the foreign policy of the United States.

If the cost of purchasing, storing, and using the food as a part of our national and foreign policies is to be charged to agriculture, then agriculture has no recourse other than to demand that we adopt policies that will allow us to dispose of our surplus on world markets and to enable us to create a situation whereby supplies of the market have some relationship to demands.

This means that while American farmers are assuming the obligation for most of the reduction in world food output in order to stabilize our own prices to prevent the destruction of agricultural prices in the rest of the world, we must, at the same time, insist that our Government pursue policies that will enable us to capture a reasonable share of its world markets.

In order to do this it is essential, in our judgement, that the Department be given the authority to dispense with export certificates when the price of the agricultural commodity sold in the United States is approximately that which it would bring on the world market. In the case of cotton, it means that we must find ways of selling on the world market while maintaining cotton farm income at a level close to parity for that part going into our own domestic use. This is further complicated by the necessity of selling our cotton to our domestic mills at a price that allows them to remain competitive with imported textiles. It also means that we must exercise the greatest caution, despite the seemingly simple analysis of the problem which we are hearing at the present time, about increasing the resale price for CCC products sufficiently to price ourselves out of the world markets again.

In the midst of the critical negotiations going on in GATT at the present time, it is foolhardy for us to do anything in terms of agricultural legislation that would prevent our representatives from negotiating from a position of strength. We might say in passing that the passage of the wheat bill in 1964 made a significant contribution to the bargaining position of the American negotiators. The removal of the export subsidy was evidence of good faith, which was badly needed at that time. Some of the other countries, unfortunately, have not seen fit to follow this same pattern. We believe, however, that there is going to be some progress on this score, and that some of the pressures within the European Economic Community itself are going to reduce some of the opposition against lowering their pricing and levying system.

Although we earnestly urge that you do nothing in this committee or in the Congress to jeopardize these negotiations, we also promise you and the producers of agricultural commodities who are involved that the National Grange will not forever take this position unless there is ample evidence that the other

international trading nations are willing to make some positive contributions to the necessary attempts to eliminate, or at least lessen, the restrictions on international trade.

RESALE OF CCC STOCKS

It was inevitable in the inexorable march of human events that the inadequacies and shortcomings of the farm policy—based on a depression, salvaged by a war from its own inner contradictions, and nourished in a postwar prosperity—would cause the program to fall under the weight of its own conflicts.

This began at the end of the Korean war when the economic and political pressures caused by the dead weight of 1,400 million bushels of wheat and 85 million tons of feed grains depressed the market, sent Government storage and holding costs skyrocketing, and caused abuse and scorn to be heaped upon the programs by friend and foe alike.

The options available to alleviate this situation were neither numerous nor easy. President Eisenhower remarked that the cheapest way of disposing of the surplus was to dump it in the ocean, but this was "unconscionable" in a hungry world. Since there was no effective way of isolating the domestic and international markets from the depressing effect of these stores, the only alternative was to reduce them in order to stabilize and improve prices and cut Government costs. There was no painless way to do this. Sacrifices were required of farmers. They have been made. Taxpayers were called upon to carry a reasonably heavy burden at this point, and they have done this. Even the warehousemen, who are so directly affected, are now called upon to make their adjustments also.

The downward adjustment in Government grain stocks was made possible by the passage of the feed-grains legislation by the 87th Congress, and the wheat legislation by the 88th Congress. Wheat stocks, accumulated over many years, have been reduced to about 900 million bushels, a reduction of 600 million bushels. Feed-grain stocks have also been substantially reduced, and there will be a carryover this year of somewhere under 60 million tons—probably in the neighborhood of about 55 million tons.

It is no secret, however, that the direction of these programs has not been pleasing to those who are determined to oppose any kind of program. The executive secretary of one farm organization stated prior to the submission of this program to the Congress, according to a dispatch out of Chicago, that "We don't know what kind of program is going to be proposed, but we will have a strong statement against it." It is also no secret that programs to reduce Government costs, by reducing Government storage, have met the strenuous opposition of those whose primary business is the storage of grain. This opposition has come from those warehousemen who mistakenly believed that the acquisition programs would never be abandoned and, consequently, gambled some of their money on the expansion of their storage facilities and lost on the gamble when Government stocks were reduced.

In the proposals to increase the release price level for Commodity Credit Corporation stocks, it naturally is not stated that this would be a way of reversing the trend toward emptying the bins and storage elevators that have been used for storage purposes in the past. The Commodity Credit Corporation owns bins with a capacity of about 965 million bushels, and these are at present about 50 percent full. However, Commodity Credit Corporation has no complaint. The fact that on December 31, 1964, commercial warehouses were operating at only 36.37 percent of capacity, and on March 31, 1965, at 31 percent of capacity, cannot be disregarded as a reason for proposing a change in our basic agricultural law, which would slow down, stop, and probably reverse the trend toward reduction of Government stocks and, consequently, elevator space utilization.

Practically all of our society is aware of the surplus agricultural commodities; very little of it is aware of the surplus in storage facilities. The inevitable conflict results from the fact that the development and execution of programs to relieve either problem will automatically increase the problems of the other. Actually, it may be necessary to develop programs to alleviate the problem facing the warehouse companies, both privately and cooperatively owned. This, however, should be honestly labeled as a program for doing just that, and should not be disguised as part of a farm program.

The general attack on the release price level is based on the assumption that if the release price were raised the income of farmers would go up in proportion. Now, let's take a look at this assumption.

In the case of feed grains, the price has been at the loan rate or under for many years at the time of harvesting. This is when the farmer who sells his corn for cash usually has to sell. The exception is the farmer who has sufficient capital to hold his corn—not only capital in terms of the invested value of the corn but also capital in terms of the delay in payment of the fixed and variable expenses of the farming operation. The only other group which would benefit from this would be the so-called grain trade, because this would obviously allow for a greater fluctuation in the market price. Instead of the present 5- to 7-cent fluctuation, it would be about a 25-cent fluctuation.

Under the present budgetary circumstances, and this statement should not be construed as National Grange approval of the attacks on the former Director of the Bureau of the Budget, we are advised by the Department that the only way to cover the increased costs of this program due to the increased holdings in storage would be to take it from the loan level. It is precisely at this level that the smaller farmer and family farmer are helped most by the present program, where a decline in loan values would be felt most quickly, and where results would be the most serious. Even at this level, the net effect would not be to increase the net income of most farmers.

Each 1-cent increase in the price of wheat increases the export subsidy on the approximately 60 percent of the total crop by the same 1 cent per bushel. The additional cost in export subsidy involved by increasing the resale price from 105 to 110 percent of the loan level is only 6¼ cents per bushel. This means an extra \$42 million in additional subsidy costs if we are to export 700 million bushels of wheat. If the resale price were raised to 125 percent, the additional cost would be \$168 million. With a limited amount of money to spend on a wheat program available, this additional \$42 million would have to be recovered from some other place in the wheat program. The most logical point of recovery would be in the reduction of the loan rate, which would adversely affect the income of all producers, as we have pointed out.

Since there are a great many farmers, as well as producers, who are consumers of feed grains—and these consumers and feeders are just as much farmers as the producers—the increased instability of the market which would result would seriously threaten the balance that has been developed between the costs of feed and market prices. We have been a long time in getting the desirable 14 to 1 hog-corn ratio reestablished, and it is just being accomplished at the present time. We have gone through the throes of a great adjustment in beef feeding, and are beginning to get some stability in that important segment of the economy. The prime requisite for a successful feeding operation—an abundant supply at a reasonable and stable cost—would, therefore, be seriously jeopardized. Since the present stability has been attained with great difficulty and at considerable cost to the producer and taxpayer alike, the National Grange would not look with favor on any action that would destroy this stability and which did not offer more positive guarantees of improvement of farm income than the proposed questionable assumptions are able to provide.

At the same time, there are great areas of the United States where agriculture is based almost entirely on a feeding operation that would transform the surplus feed produced in the Midwest into milk and dairy products, chickens and poultry products, and other types of feeding programs. These areas would be in serious jeopardy. The increase in the resale levels would impose increasing hardship on dairy-producing areas of the Northeast and to the poultry and egg-producing areas of the South and Southeast. Even if it would add a comparable income to the producers of feed grains by further jeopardizing these two primary agricultural businesses already in serious trouble, such economic aggression has no justification or place in the American economic system. It certainly has no place as a result of governmental action to create and intensify these situations.

Furthermore, it is only because of the high participation in the feed-grain program that we have been able to reduce feed-grain stocks from 85 to 55 or 56 million tons. The effect of this proposal would be to put an umbrella over the non-complier at a sufficiently high level to make participation in the program no longer desirable, unless greatly expanded payments for acreage diversion were also a part of the picture. Whether intentional or unintentional, it is an effective way of wrecking the programs.

It should again be pointed out that for many years the market price has remained below the loan level, and there was little opportunity for sales on the part of the grain trade. The margin available then was about 2 percent, which would give it a margin of 3 or 4 cents. At the present time, the margin possible has

increased to about 10 cents per bushel, but for some strange reason, as the opportunity for earnings goes up and the margins increase, the demand for yet further increases is heard in the marketplace. This is by way of stating that the grain trade simply is not being further restricted by the present program, but, in reality, there is some increase in its freedom to buy and sell and opportunities to earn in the process.

There have been in more private conversations during the past few weeks suggestions that the resale level on corn remain at the present 105 percent and that the increase in the resale level be applied to wheat. We would point out that the wheat and feed-grain legislation, which has been on the books and which is being proposed as an extension of the present law in this legislation which is before you, was arrived at after lengthy consultations between the wheat and feed-grain producing organizations.

The relative value of free wheat and that which is not eligible for either domestic or export certificates and the value of feed grains is almost equal. If the request for the increase to be applied to wheat were granted, this equality would be destroyed, making it impossible to attain the necessary adjustments in production which can be accomplished by the use of a substitution clause. This action would preclude the use of a substitution clause which in our judgment is very desirable.

We would also point out that in international trade, if we started the loan level at \$1.25; and add carrying charges of 1½ cents per month for a maximum of 13.5 cents at the marketing yearend, we would have a value of \$1.38 in terms of Government investment; 105 percent of \$1.25 plus 13.5 cents would, therefore, be \$1.445 per bushel. This is just below the price level for exports at the present time due to the fact that our support level is \$1.30 per bushel, and well within the International Wheat Agreement price level. Other exporting countries have shown a perfect willingness to use this level as a sales price for their offerings on the international market.

If the 125-percent feature were adopted, the release price after April 1 would be \$1.70. In fact, 125 percent of \$1.25 per bushel would mean that even at the beginning of the year in July, the release price would be \$1.56 plus, which simply means that at no time during the year would it be possible for CCC stocks to be released into international trade. The amazing thing about this is that some of the people who talk so loudly about free international trade would support a program which would absolutely prohibit the use of any Government stocks in international trade. This would mean that no private trader could purchase from CCC stocks at any time during the year and sell at a profit. Indeed, when 25 cents is added to the on-farm price for handling and delivering to dockside, we still are at or above the international prices, and this is the reason even at the present time that there is relatively little export for cash during the final months of the year.

This whole argument might be likened to the proverbial dog chasing his tail, because if the supply is greater than the demand, it is relatively unimportant so far as the farmer is concerned where the resale price is placed because it will not add to his income. The only time it can be done is when the supply is less than demand, or requirements, which is also the only time when these Government stocks can be reduced. A situation, therefore, which would permit some increase in farm income as a result of the adoption of the higher release prices can result only from the effective working of the programs which we have to reduce supply. In turn, if we adopt programs that make it impossible to reduce the supply or to damage the existing programs that are succeeding in doing this, then we only delay the time when we can have some competitive influences returning to the market.

The position of the National Grange is, therefore, that farm income can be maintained at its present level only by the continuation of the present program to reduce Government stocks and bring them into some relationship with the demands of the market and the requirements of our relief programs.

It should be pointed out, however, that the concept of increasing the market price substantially at the same time we are using the domestic wheat certificates, would necessitate the adjustment in the value of the certificates so they would not be permitted to exceed by any substantial amount 100 percent of parity. It is extremely important that we give our consumer groups the assurance that they are not going to be asked to pay through a certificate program an amount sufficient to bring the domestically consumed wheat, which is used for human food purposes, up to 100 percent of parity and at the same time pursue policies to

substantially increase the price of this wheat in the marketplace, which would bring this total above the parity level.

We would say to the committee that in our considered judgment, and this is based on the study of the economic facts involved, the increasing of the release price would serve no useful purpose to the producers of agricultural commodities. On the contrary, it would imperil our present programs to reduce Government stocks and Government holdings; it would seriously interfere with our international trade; it would not increase net farm income. It would add greater burdens to those who feed and produce agricultural commodities; it would interject a factor of instability into the market which does not at present exist; it would seriously interfere with our international trade, and it would place an umbrella over the noncomplier at the expense of the producer who complies with the programs.

NATIONAL FOOD RESERVE

If it is true that pressure to increase the resale price of CCC stocks is simply further to isolate the stocks from the market, then there seems to be an acceptable alternative to this proposal, one which would more clearly accomplish this purpose than the proposal to raise the resale price level.

The National Grange, therefore, urges this committee to seriously consider the adoption of a program to establish a national food reserve in the interest of the general welfare, as an integral part of our total concept of emergency and defense planning.

We propose as a point of discussion that this should include a 1-year reserve of the amount of wheat necessary for domestic food production in the form of bread and other wheat flour products, plus the amount necessary for annual reseeding. Since feed grain is an important part of our total food production programing and is essential in the production of meat, dairy, and poultry products, a reserve of sufficient size to meet these needs could and should be a part of the program. Any substantial reduction in this amount of feed grains should be reflected by an increase in the reserve of wheat because a substantial reduction in the amount of high protein foods available to American citizens would be reflected in increased demands for cereal products. Such a program should be funded separately from costs chargeable to the Department of Agriculture, just as we are beginning to list our Public Law 480 expenditures in a different category.

The Commodity Credit Corporation should be permitted and required to keep stocks at a high quality. This would necessitate some moving in and out of this national food reserve. It should not be permitted to reduce these stocks as a part of any sales program below the minimum established of such a program, even if the price of the products increased substantially above the cost of acquisition of the reserve. In other words, this reserve should be completely isolated from the market and from having any depressing effect on the market. This means any use of these reserves should be based upon the availability of food, rather than upon a price-triggering device. Price is important, but it should not be the only criterion because there may be instances when the price could reflect world market conditions rather than domestic food needs. We should, therefore, protect this reserve from being drained out by world needs; instead it should be reserved for domestic emergencies.

If we were to couple the national food reserve with a wise and judicial surplus disposal program, there would be good possibility of increasing farm income through the marketplace. The National Planning Association will shortly issue a statement on this problem. It has been developed by the Agriculture Committee of the NPA, of which I am privileged to be a member. Providing the statement is issued when the committee is still receiving testimony, we would like to have the privilege of adding this statement when it is issued as an appendix to our testimony.

CROPLAND ADJUSTMENT

As a background to the discussion of this subject, let me begin by quoting from Grange policy established in the 91st Annual Session of the National Grange in 1957:

"The Grange has long recognized the need for legislation and programs to assist and encourage landowners and operators in the conservation and development of renewable natural resources. As a matter of fact, the 1955 Report of the Intersessions committee on Soil and Water Conservation (p. 186, proceed-

ings of the 89th annual sess.) is one of the clearest and most comprehensive statements ever drafted in this field.

"The so-called soil bank program, of two parts, has included resource conservation as one of its several original objectives.

"The conservation reserve part of the soil bank is, in its aggregate effect, making a genuine contribution to conservation progress. Most of the land retired from cultivation and put to permanent cover of grass and trees has probably been land that should be devoted to much less intensive use. Much of this land probably would not have been taken out of cultivation at this time without the incentive of the conservation reserve.

"We believe this money well spent. It has not only added to soil and water conservation but has, in some degree, reduced production of crops in surplus.

"We recommend the continuation of the conservation part of the soil bank.

"The acreage reserve part of the soil bank has been considerably less successful in attaining its original, intended objectives. These included a major reduction in the production of the 'basic' crops, a reduction in the Government-held stocks of these commodities, and an improvement in the income of farmers.

"We believe that continuation of the acreage reserve, in its present form, is of extremely questionable value. To be sure, it has provided important income benefits to farmers suffering the effects of severe drought, flood, and storm—and to this extent it has served a worthy and welcome purpose. Apparently it has also helped numbers of elderly farmers to retire and it has aided others who have been operating very small farms to take full or part-time jobs in industry,

"To accomplish its original objectives, however, we believe the acreage reserve should be considerably modified if not completely overhauled." (P. 141, 1957 Journal of Proceedings, National Grange.)

The soil bank program was running into trouble in 1957, and Congress reduced the acreage reserve appropriation from \$750 million to \$500 million and the conservation reserve from \$450 to \$350 million. During the time which has elapsed since the 1957 National Grange statement, the acreage reserve features of the soil bank have been brought under more fire because expanded technology canceled the predicted success in reducing surpluses. Also, the withdrawal of substantial quantities of productive land in rural areas triggered a disintegration of the local economy.

The National Grange recognized the continual disintegration of the agricultural situation before remedial efforts were taken at the beginning of this decade to reverse the trend of surplus commodities accumulation. At its national convention in 1963, the Grange said :

"Whereas livestock prices have been under pressure from more than adequate supply, and whereas 25 million acres of soil bank land contracts will expire in the near future, and whereas the release of all or any part of the 25 million acres of land for grazing purposes would greatly increase the oversupply of meat production, therefore be it resolved that the Grange favors congressional action to permit extension of said contracts for a period of 3 years." (P. 118, 1963 Journal of Proceedings, National Grange.)

This modification of the National Grange position was the result of the necessity of putting a diversion program into the feed grains and wheat legislation. However, the proposal to use a program of cropland retirement as "a keystone of the long-range adjustments farm people want to make," appears to the Grange to be a negative approach to the vast problems confronting commercial agriculture and a matter of temporary expediency at best.

As a matter of established policy the Grange will support a program which will be able to pick up contracts expiring under the original Soil Bank Act. However, it still seems to be more fiscally prudent to tie reduction of acreage programs designed to reduce surpluses to the commodity produced. In fact, we might say it is more sensible to do this with crops which have a limitation on production not expressed in acres allotted to that particular crop. Therefore, we submit to this distinguished committee that diversion payments related to the wheat program, with marketing certificates based on bushels, make the most sense because they lead to an inevitable and predictable crop reduction.

However, this is not a sufficient basis for any encouragement that long-range adjustments in agricultural production can be accomplished in this manner. A great deal is heard from a number of so-called scholars in the field that land is the basic requirement for production. Therefore, they say, land must be retired to adjust the production of agricultural commodities to the market demands. The National Grange wishes to enter a vigorous dissent to this prevalent opinion. The day when the factors of production in order of importance were

land, labor, and capital has been completely outlived. The reverse is now true. The most important factor in production is now capital, with labor second and land third.

For instance, a great deal of land in our arid western regions, is almost valueless without water, even with labor available for its cultivation. To apply this water requires capital investment which can run from \$25,000 to \$75,000 for well-drilling alone, to say nothing of the irrigation facilities. The increase in land value is not the result of acreage available, but rather is due to the application of capital.

Any long-range program for reducing production must face the problem of limiting capital investment in order to reduce production from available land. This is a matter of basic economics. Failure to do this in some reasonable way will continue to put extreme pressure on the owner-operated farm, and increase in intensity the effects of a policy which makes survival dependent not so much on efficiency as upon the availability of capital reserves.

The use of the soil bank, or cropland adjustment program, has caused disastrous social results in the southeastern cotton-growing areas. Much of this economy is at a level where further reduction in efficiency will mean a collapse of vital segments of the cotton economy. Although we have heard a great deal about the making of ghost towns in the Great Plains, the greatest social impact of the soil bank program was in the small family farm units of the southeast. Not only was the effect felt in the local schools, churches, banks, and businesses, but the reduction in cotton planting under soil bank meant the destruction of cotton-handling facilities from the planting stage to the final handler. The gins rust out, warehouses decay, cooperatives become bankrupt, and the cotton economy itself is in chaos. It is for this reason that the National Grange made as a condition of its cotton program which it adopted in its 1964 session in Atlantic City, this statement:

"We oppose the soil bank program for cotton acreage in any form, either mandatory or voluntary."

Another factor of the cropland adjustment program which, I think, is not properly appreciated or completely understood is that the first land to be taken out of production must be poor land. This can be rented most cheaply and will be most quickly offered. As a result, the concentration of land which is removed from production probably will be in the marginal production areas.

We would point out that many adjustments already have been made in these areas by the farmers who remain on the land, which enables them to become less and less dependent upon actual income. The major adjustment has been in the search for off-farm employment. We hear a great deal about a \$12½ billion net farm income. We are not listening enough to a corollary figure that off-farm income last year exceeded 50 percent of the net farm income—over \$7 billion. This off-farm income has enabled many operators to considerably reduce the amount of land that is under cultivation and shift it into alternate uses requiring less time on the land than was previously used. A further program to shift large quantities of land out of production in these areas can cause a collapse of the economies in these marginal land areas. This is especially true if alternate opportunities for employment are not available. There comes a time when the essential services in an area collapse regardless of the intense desire of those few who remain in farming to continue their production.

Therefore these reductions will be concentrated in regional areas and, in general, these are the areas already in the greatest economic distress. There may be sufficient economic and social reasons for justifying a program which would accelerate these regional adjustments, which is precisely what some suggestions are calling for. Thus, we would stop diffusing our reduction programs in vast areas, and move these programs into the marginal areas so that under the laws of comparative advantage, areas that are best able to produce can compete more successfully for the domestic and world markets.

This again points out the need for a thorough study conducted by a competent commission to determine what is a desirable land policy, and then to establish that land policy by proper legislative action. As far back as 1955, the National Grange recommended:

"A national land and water use policy must not be academic, but must attempt a practical, long-term satisfaction of needs of the people in daily living—for food, for shelter, for farm and industrial production, for travel, for electric power, for recreation and inspiration."

To adopt a land-retirement program on the basis of a permanent solution to the problems of agriculture by this committee would seem premature and inconsistent

with policies of national and international welfare. To adopt it on the basis of this being a temporary solution, while more permanent programs are being devised and implemented, programs based upon sound land and water-use planning, sound national and international policy, prudent use of tax moneys and the protection of the integrity of invested capital in many areas, would receive reluctant support of the National Grange.

The use of a cropland adjustment program to accomplish basic concepts of conservation reserve appears to us to be highly desirable. There is no question but that there is a great need for recreational and open-space areas, room for children to play, room to develop and preserve the beauty of the great outdoors, and room to provide for the orderly expansion of the living space of a rapidly multiplying population. However, the program as it is suggested does not seem to be the answer to this problem, largely because the requirements for the kind of space of which we are talking is largely in the areas where the production of crops is not a major economic factor for the farm population, nor is it a major factor in terms of surplus production.

A great deal has been said about the need for recreational land, but with the exception of, perhaps, a Great Plains National Park to preserve some acres with a few buffalo and other wildlife on it, great areas that need to be taken out of production, if production adjustments are to be attained, have no alternate purpose. Indeed, there may be a very real case made for the economic advantage of keeping this land in production.

In relationship to the needs of our urban areas for suburban room, the suggestion contained in the legislation proposed by Congressman Poage appears to us deserving of more than casual consideration. This proposal provides for a jointly owned Federal and private corporation, empowered to purchase and hold land. The suggestion does not permit the acquisition of land on a realistic or adequate basis, but this alone should not dissuade the committee from trying to provide for the setting aside of land in a larger area determined by an increase in the suggested radius.

There should be a program including watershed protection for the permanent retirement of private land when it can be put to public use. The failure to develop adequate soil conservation and watershed protection programs in the upper Midwest has been a costly experience. How much better it would have been to have spent the required money for the retirement of land and improvement of the watershed and water conservation characteristics of this land, than to have spent hundreds of millions of dollars trying to restore the economic life of communities which can never fully recover from the losses.

There is also the need for hunting and recreational reserves—both publicly and privately owned—within reasonable distances from our cities. The State of Pennsylvania has recognized this by the adoption of an important bond issue and the initial development of parks closer to the cities. Previously, the available park land in Pennsylvania was far from the major population centers. The purpose of recreation land in Lancaster County at \$2,000 an acre may be a better use of money than the purchase of recreation land in Bradford County at \$3 an acre.

The cropland adjustment program should be conceived as helping to alleviate the need, and, in this instance, it should be closely correlated with the programs for area redevelopment, soil and water conservation, pollution control, and other factors creating problems for both urban and rural residents.

What we are saying is that we will give enthusiastic endorsement and support to those programs which are permanent in nature and which remove, for the foreseeable future, land from production and put it into uses other than the production of agricultural commodities. This is a part of proper and wise land-use planning.

The Congress must also see that funds are available. This appears to us to be a wise expenditure of money—to help those who so desire in situations that seem to be economically feasible to transform the uses of this land from agricultural production to other profitmaking alternatives.

Such a program must not again enable nonfarmers to purchase farms out of the land retirement proceeds. This was one of the most damaging psychological results of the soil bank program as it originally was conceived and executed.

In our judgment, such a program must not be a device used to retire noncrop land, except as it is necessary to retire whole farms in order to retire the cropland itself.

The whole-farm retirement concept is one which needs to be most carefully considered. This is the program which also retires the village businessman and makes a severe impact upon a community. However, we recognize that there are points beyond which the partial retirement of a farm is no longer practical, because of the requirements for capital investment—primarily for machinery—which would still remain.

Such a program must contribute to rural welfare, instead of contributing to a decline of welfare of rural residents. That means it must be correlated with efforts to disperse rural industry and employment opportunities. The social and emotional factors of the displaced people must be equally considered with the economy and desirability of some of these programs.

It would appear to us that it would be possible to use land as capital—for community development, to make available land a basis for the dispersal of industry and to attract this industry into the rural areas. However, the Grange believes that this must be done with considerable caution. We must not permit this kind of program to be a refuge for fugitive industry fleeing from one area to another to avoid responsibilities for paying a livable wage to the people employed. This exodus has not solved any of the problems of American life, but in many instances has intensified them. However, within the concept of the Area Redevelopment Administration, the placement of expanded facilities for existing plants in other areas where labor and wages are consistent with the rest of the Nation, is a positive and constructive method of solving some of our rural and urban problems.

In summary, the Grange supports with the greatest reluctance the concept of acreage retirement as a means of solving the problems of agriculture. The Grange enthusiastically supports the program to change the usage of rural land from nonproductive agricultural production into a more profitable, alternate use. We hope the administration of this proposed program would place primary emphasis upon the latter concept. The concept of acreage retirement should be used only on a temporary basis while we develop a positive and permanent solution to the problems of American agriculture.

TRANSFER OF ALLOTMENTS

The development of farm programs in which allotments for production are made to individual growers has brought a new factor—both a liability and an asset—into the field of farm management.

The simple fact is that allotting production in any specific amount, or on the basis of acreage or other allocations of the market means that a capital asset has been created as a part of this economic unit. This is most evident in the present program of short-term leases and transfers of tobacco allotments and the transfer of rice allotments. It is to some extent also evident in the release and reapportionment program that is a part of the cotton program.

However, the most common evidence that these are capital assets is that anyone who purchases a farm today determines the crop allotment which is part of the Federal programs in the area in which the land is located.

The liability is usually found in the farmer's inability to make the adjustments in production which his own personal situation indicates as most desirable. The abandonment of a share of a market for a crop would be the same as abandoning any other capital asset. Allotments that are marginal in nature tend to "freeze" a productive pattern into a marginal or submarginal operation. The consolidation of allotments into an efficient unit means the marginal or submarginal land must also be consolidated, and the liability that is carried with the allotment cancels out the economic advantage of the allotment. Therefore, the submarginal and marginal farmer has no efficient alternative available. All will be eliminated unless a program is devised to permanently transfer allotments.

Such a program must deal with two major problems. First, it must permit the consolidation of small allotments into an efficient, family-sized farm without requiring that the liability of marginal or submarginal land be included in the transfer. Such land may have alternate uses which are more economically sound than the production of food products. The sale of an allotment or the cashing in of a capital asset, can, in some instances, provide capital for the development of alternate uses for the marginal land. It also would enable some of the people who are at a retirement age to have additional capital for living on the land without having to invest in an uneconomic operation to produce agricultural

products. But most important, it also will permit some farmers who are now marginal to survive and prosper when their productive units are enlarged.

The second problem is the opportunity for this consolidation of productive resources into increasingly large units. Such units tend to be progressively unrelated to the owner-operator farm concept. Adequate care must be taken to see that an economic injustice is not done to many areas and that the social problems thus created are not greater than the value of the solutions which are obtained by the transfer of the allotments program.

The Grange recommends that transfers of allotments be permitted for the purpose of consolidating inefficient units into an efficient operation and that these transfers be permitted without the sale of the land being a necessary part of the transfer. This will necessitate the determination within States and counties of the size of operation considered to be efficient for all crops involved. In the Southeast, we believe the criteria of the Department of Agriculture is in error when it suggests that consolidation of bases to exceed the average of the bases in the State would not be permitted.

The fallacy is that the average, considering the extremely high number of very small allotments, would still be too low. A more reasonable solution would be, in our judgment, the application of the principle that has already been used concerning sugar. This would be to limit the consolidations to efficiently sized units determined by the best available information. If the suggestions concerning the transfer of allotments are acceptable to the Department of Agriculture, we believe that many cotton producers would no longer oppose such transfers.

Texas presents a second problem arising from the transfer of bases. We should recognize that Texas is one State that has about five separate areas in terms of agricultural productive patterns and interests. In the State, recognition should be given to area considerations, and the areas should be protected against the movement of these allocations of acreage allotments as in other States. The fears of the east Texas producers could thus be reduced or removed.

Transfers of such allotments should be made only with the permission of the ASCS committees who can determine the total allotments to be consolidated. Consideration should also be given to the allotments that the purchaser already has for other crops. It would be inconceivable that one purchaser should be able to consolidate allotments for cotton to bring him to an efficiently sized unit and also be permitted to consolidate allotments for tobacco, rice, or other crops which are under Government programs to the same extent.

Recognition should be given to the problem which might be created by the loss of allotment land previously available to renters. Without some protection, renters could become quickly bankrupt by the action of landowners. Some restrictions should be provided for the sale of allotments to or by absentee landlords.

Consistent with our policy of consideration to owner-operator farms, the Grange would not approve the transfer of allotments from farms that are already efficiently sized without the transfer of the land. This requirement alone would prohibit mass transfers of productive capacity from area to area and would almost eliminate the necessity that transfers should not be outside of established political jurisdictions whatever the level.

In general, we believe a system should be devised to allow purchasers in the local area an option on a sale before the sale would be permitted outside the local area. The same options could also protect the county and State from the loss of their productive capacities.

In our judgment, there should be consideration of the possibility that allotments could be exchanged. It might be possible that these transfers could be effected within existing legislation by State and county ASCS committees working together to improve opportunities for profitable managerial decisions of farmers in all areas of the State.

With the exception of the qualifications that we have suggested, we agree that other safeguards within this proposed legislation would protect the existing rights and privileges of those who now have allotments and the social structure of the existing farms.

We also point out that this legislation should be broad enough to apply to any agricultural commodity under mandatory controls as a result of producer referendums, or which might, in the future, be controlled by the application of marketing orders and quotas through producer referendums. This would include milk, poultry, turkeys, etc. With the inclusion of safeguards to protect the family farm, the rural community, and the managerial ability of American farmers, and

the adoption of the safeguards already proposed in the legislation, the Grange would support the passage of the legislation included in title V of the omnibus farm bill, S. 1702.

WHEAT

The National Grange proposals have been designed to isolate our own primary markets from the depressing market pressures of our marginal production. The Grange seeks to derive the major share of American farm income from the sale of American farm commodities on the primary market. For that which is sold on our primary domestic market, we would thus generate a return that bears a reasonable relationship to the returns realized by other segments of our economy for use of the similar labor, investment, and production.

We believe, for example, wheat consumed for food on the domestic market represents our primary market, and the return should be from the user of the commodity as distinguished from the taxpayer. To attain this objective, wheat should bring a return of 100-percent parity, or about \$2.60 per bushel, for that portion going into bread grain and human food. The difference between the support or feed grain price (which is, in reality, the marginal price) and the parity price should be made up to the producer by the certificates which the user is required to purchase to place that wheat in domestic food trade channels.

Thus the certificate becomes a part of the price of wheat used for food. The certificate is a means of obtaining the desired price from the market, instead of the taxpayers as in the old loan and purchase program. In our certificate program, only those who buy the wheat for this "primary use" pay the price. Under the old loan and purchase price support program, the cost is charged to Federal income taxpayers, regardless if a taxpayer uses any wheat, or its products.

To protect our available foreign markets from reaction to the dumping of American surpluses at prices less than the producer receives for that wheat, and from disastrous results of putting our surplus on the market at a feed grain price level, the National Grange proposed the export certificate provisions. These provisions require exporters to pay the difference between the support level and the International Wheat Agreement price, in the form of an export certificate.

The remainder of the wheat produced in this example, then, has no utility except as feed grain, and is supported at a feed grain level.

This system is a correct application of the following economic laws:

1. It places reliance upon the primary, and most profitable, market for the major return for the factors of production;
2. It recognizes the difference between American and international price levels; and
3. It makes the production of surplus wheat considerably less profitable for the primary and export market.

It avoids the twin fallacies of pricing the most desirable wheat, or part of the commodity, at a marginal price level, as would be done under the so-called free market principles. At the same time, it avoids pricing the marginal production at the level returned by an open-end support system. This program gives basic attention to the demands of the domestic and foreign markets and seeks, by economic rewards and penalties, to adjust the production to the demands of the market. This is the proper application of the law of supply and demand.

The wheat programs of 1964 and 1965 establish this principle. The primary certificate and price level are far short of Grange objectives largely because of the vigorous opposition of one major farm organization. This group consistently advocates the maintenance of the old across-the-board price support loan and purchase program, but it insists on lowering the Government's fixed-price level for these loans and purchases by a formula of 90 percent of the previous market level until wheat reaches the feed grain price level. The rural organization has urged rejection of the marketing quotas in annual referendum—which meant 50 percent of parity support level or \$1.26 for 1964 wheat had it not been for our April wheat legislation.

Actually, the program is working better than we dare to predict, despite a continued hysterical campaign to discredit it by the same farm organization and, more recently, by processors and some labor unions. Their charges that the Government is dumping wheat to "drive down" the prices as a "punishment for those who did participate in the program" do not square with the facts. In addition, their charges appear as an attempt to exonerate these groups from a guilt complex caused by successfully urging a "No" vote in the wheat referendum which reduced the price of wheat to \$1.24 per bushel.

Prices for most of the year are substantially above the support level, and the CCC is releasing stocks only as bidders meet the market price above the statutory minimums. In light of these two facts and that the latter principle is applied to the wheat released for payments in kind which previously could be released at any price, even below the statutory minimum, it is impossible to justify a charge of "dumping" which has been leveled against the governmental authorities.

It would appear to the Grange that officials of the CCC and the Department of Agriculture deserve a commendation for the prudence, judgment, and restraint coupled with sincere interest in improving agricultural prices during the past year.

The combination of prices plus certificates means farmers have received about \$2.15 to \$2.20 per bushel for the wheat which has gone into domestic use. The certificate program alone has returned \$387,758,000 to the cooperating farmers. Diversion payments as a part of the wheat program have amounted to \$42,799,000. The price support program as of February 1965 was \$7,707,000. The total farm income from the wheat program has exceeded the market return by \$438,264,000. This is income which would not have been available to American farmers if there had not been a wheat program. This is the income that the opponents of the wheat program would ask farmers to relinquish in the name of an economic theory based upon highly unrealistic assumptions. This income represented 20 percent of the total of Government payments, but the interesting thing about this whole situation is that 88 percent of this additional farm income did not come from Government sources.

The leading State, in terms of receipts from certificates, was Kansas with \$94,703,000. This was almost \$600,000 more than the total received by all of the States in the western region. Total Kansas receipts from all Government programs were \$188,763,000, while Iowa, which ranked second, received \$226,278,000. Only \$586,000 of the Iowa Government funds came from the wheat certificates.

What is wrong with the program is that domestic certificates do not reflect 100 percent of parity, which would return wheat farmers another \$300 million per year. This is the goal of the National Grange for 1965 and 1966 and all future years.

The delegate body to the 98th Annual Session of the National Grange which was held in Atlantic City in November 1964 passed the following resolution concerning a wheat program:

"Whereas a healthy American economy must be founded on a strong farm economy; and

"Whereas a wheat program is essential to a prosperous farm economy; and

"Whereas our present wheat program assures our wheatgrowers approximately 65 percent of parity; and

"Whereas adequate planning time should be assured the wheatgrower if he is to operate efficiently; and

"Whereas a sound farm program should give full credit for conservation practices: Therefore, be it

Resolved, (1) That the Grange continue favoring the voluntary wheat certificate program; and (2) that this program be strengthened to assure a substantial increase toward a parity price level to all wheatgrowers; and (3) that future extensions of the program be announced in time to assure the growers adequate crop-planning time; and (4) that the program be amended to allow full credit for conservation practices; and (5) that the program's procedures be streamlined to reduce all administrative decisions to the absolute minimum necessary to implement the program; and, be it further

Resolved, (1) That adequate planning time, of at least 18 months, for the benefit of dryland farming, crop rotation, and conservation practices be included in future wheat programs; and (2) that the wheat and feed grain programs be extended at least 3 years with a goal of 90 percent of parity. This would also provide for adequate long-range crop planning; and (3) that the Secretary of Agriculture set the acreage diversion payment at the maximum rather than the minimum to assure the wheatgrower an adequate income; and (4) that in future wheat programs the substitution clause be included; and (5) that a national food reserve of 630,000 bushels be established to meet the needs of the United States in the light of current world conditions, the cost of assembling and maintaining such a reserve be so charged to national defense rather than to agriculture; and (6) that there be a systematic issuance of purchase authorizations under Public Law 480; and be it further

“Resolved, That the National Grange continue to work for the original Grange program of full parity price for domestically consumed wheat, including provisions for bushel allotments, and for CCC loans on farm-stored wheat as integral parts of the program. Farm-stored wheat should include wheat for both domestic consumption and export.” Journal of Proceedings of the National Grange 98th Annual Session.

The legislation reported by the Wheat Subcommittee of the House of Representatives, calling for a total of the market price plus certificates of 100 percent of parity, meets the income specifications of the Grange and has our support.

The Grange earnestly points out that the export certificate should not be increased in value. The purpose of the export certificate is to reflect the difference between the American support price and the price of wheat in world markets. Increasing the value of these certificates would make the United States guilty of the charges of “dumping”—the same charges leveled against us in the past. It would bring us into violation of our treaty commitments and place an unnecessarily heavy strain upon our negotiators in Kennedy Round in GATT at the present time.

The Grange would not support any suggestion that the export certificates should be removed completely from the act. We do recognize the important element of flexibility in trading. To enable our own exporters to meet world market prices on a competitive basis, legislation should permit some flexibility in the use of export certificates. There may be times when it would not be advisable to use any export certificates, if we intend to maintain and increase our share in the world market for wheat.

We would, therefore, support the Department’s request for discretionary power. We sincerely hope it will not be necessary to use this power to the extent that income is further reduced and we hope that the committee, if it grants the Department of Agriculture’s request, would add guidelines to the legislative history of the bill so that such power is not blanket approval for the discontinuance of export certificates for all time.

As noted in the Grange policy, we believe a substitution clause should be included to permit an interchange of wheat grain and wheat acreage allotments. This would permit the normal adjustment for any farm manager and would help increase efficiencies of both wheat and feed grain producers by reducing the costs of production. Therefore, farm production would not be locked into a quota system which would make changes in production and management impossible when the economic situation indicated it was desirable.

The Grange’s fundamental conviction is that allotments of a share in the market must continue to be based on bushels instead of acres. We recognize that as long as diversion payments are a part of the program, historical acres must be a part of the control program.

The National Grange looks forward to the time when acreage diversion payments can be eliminated, but we do not believe that time is in the immediate future. The income derived from these payments helps to offset the reduction of income which may have resulted from the liquidation of Government stocks. When Government stocks have been reduced to a minimal amount or set aside in a permanent national food reserve, when the market operates again with relatively balanced competitive influence and when the market demands and market supplies are relatively equal, it will be the time to consider the elimination of the diversion payments. Another reason for continuing the diversion payments is to increase the participation in the programs which are designed to improve income and reduce Government stocks. We would reserve the right to approve the elimination of diversion payments until all agricultural commodities begin to approach the parity level in pricing.

The necessity which faces farmers for planning for crop rotation on a relatively long-term basis impels us to earnestly urge the Senate and the House of Representatives to consider enacting this program for more than the 2 years called for in S. 1702.

In any kind of wheat program, what the National Grange hopes to accomplish is a return for the work, risk, management, and investment of wheat farmers—a return consistent and equitable with the rest of the economy.

We must recover from the marketplace instead of from Government by certificates which have a relationship to minimum wage laws and similar other guarantees to other segments of our economy.

We believe the income level of American people is sufficiently high to accomplish this objective in the case of wheat without strain on the cost of living. We can

maintain full parity of the domestic certificates without an increase exceeding 1 cent per loaf in the cost of bread. Considering the fact that not a penny of the 12 cents added to the cost of a loaf of bread since the end of World War II has gone to the farmer, it is not unreasonable to ask consumers to pay another penny for this loaf of bread.

The level at which the remainder of the wheat is to be supported must have a direct relationship with the value of feed grains, and the level must be so that the feed grain program is not damaged or destroyed by an unwise reduction of the support levels. It is reasonable to require producers participating in one of these programs to participate in both of them. Therefore, we would support a requirement for cross compliance, especially if we are going to permit the use of a substitution clause.

The present wheat program meets the general objectives of Grange policy, and with our suggested improvements, it will have our enthusiastic support. This is a good program—properly conceived for a modern market, properly planned to improve farm income, realistically related to international trade policies and politics, consistent with the national interest in reducing tax burdens—and its cost to the consumer will not jeopardize the abundant supply of high-quality food.

FEED GRAINS

The present concept of the feed grains program was developed by the National Grange Feed Grains Advisory Committee in 1958. The late Fred Bailey, legislative representative of the National Grange, testified in favor of this legislation at that time.

We supported the emergency feed grain program for 1961 and 1962, as a temporary measure to met an acute and serious problem. In light of the progress with these measures, we also supported the legislation for the 1963, 1964, and 1965 crops.

Again in 1965, the National Grange favors at least a 3-year extension of the feed grains program for several reasons. First, it represents a critical amount of farm income. The feed grains program brought into the farmers' pocketbooks for 1964 diversion payments of \$868,657,000. In addition, farmers placed \$293,508,000 worth of corn in the price-support program. This is a total of \$1,162,165,000. Although all of the price-support money does not represent improvement in income, the \$868 million diversion payment did amount to 7 percent of the Nation's total net farm income. In the interest of maintaining farm income which is already at a critically low stage with the price of corn only about 75 percent of parity, the National Grange will approve and support the continuation of this diversion and support program.

The second reason for supporting this program is that corn prices, falling to a seasonal low in November 1964, experienced a sharp rise of 4 cents above the national average loan rate of \$1.10 per bushel in December and were 5 cents above the average in January.

"In relation to the loan rate, corn prices are a little higher this winter than they were in 1963-64 and much higher than they were 2 years earlier, when the entire price support was in the form of a loan of \$1.20 per bushel. In 1963-64, when the loan rate was reduced to \$1.07 per bushel, the quantity of corn placed under the price support dropped to 395 million bushels, about 200 million less than in 1962-63, and the smallest in 5 years. The much smaller corn crop in 1964, and higher corn prices are expected to result in a further decline of the total quantity of corn going under price support, the deliveries of corn to CCC will again be comparatively small." (Feed Situation, Feb. 12, 1965, p. 15, USDA.)

The third reason for supporting this program is that it is effectively working in the reduction of supplies. At the beginning of the 1961 market year, there were 2,008 million bushels of feed grains in the carryover. A preliminary estimate of the carryover at the turn of the 1964-65 marketing year was 1,150 million bushels.

Total feed grain carryover at the beginning of the 1961 crop year was 84.7 million tons. The preliminary estimate indicates the total feed grain carryover at the beginning of the 1965 marketing year will be 56 million tons—a reduction of 33 percent. The feed grains supply is the lowest in 7 years; corn supply is down 7 percent from 1963-64, and grain sorghum supply is down 104 million bushels. Oats and barley stocks are also down.

The reduction in the supply of corn and the total reduction in the supply of feed grains have helped increase the price of corn. Five years ago, the

greatest depressing effect on the market was the tremendous feed grain tonnage which the Government held over. Since then, the program has been getting the Government out of agriculture to prevent Government from being the only major owner of storable commodities and the best customers that the elevators have ever had.

There are only two alternatives (not including the completely unacceptable continued reduction of the support rate) available to American farmers. If this surplus in Government hands will continually reduce, then there seems to be no better program in terms of feed grains than taking the productive units out of production. We know this is expensive, but we also recognize that there are other expenses which, if the program were abandoned, would be considerably greater.

One proposal for accomplishing this is a massive land retirement program which the National Grange is forced to oppose unless it is directly related to the retirement of the land used to produce surplus commodities.

The only other way to end this diversion program is to increase, through proper development of the market, a balanced relationship between market demand and production supplies. This would make an improvement in the market price, bringing the value of the corn and feed grains produced up to the parity level, but would obviate the necessity, from an economic standpoint, of such a program. Until that time comes, and, as a means of improving and maintaining inadequately low farm income, the National Grange supports the position already stated in terms of the feed grains program.

The suggestion that the feed grain program be put on a mandatory basis does not have Grange support because we doubt that it could be passed in the House of Representatives, and we are certain that it could not receive enough votes to get it approved in a referendum.

We urge the committee to give this problem the same favorable consideration which it has on the past programs, and we base this upon the fact that the program is working to reduce crops, reduce Government cost, and improve and protect farm income. The Grange, therefore, supports title II of S. 1702.

RICE

We wish it were possible to find in our discussion of agricultural commodities clear indications of the kind of program that should be adopted, which would be acceptable to all people involved. In most commodity and general farm programs, as this committee well knows, the issues are complicated by economic, political, social, and international considerations. This, unfortunately, is the case as we discuss a program for rice.

As we stated previously, we believe that a parity price should be paid to farmers for that part of their production which goes directly into human consumption in primary or domestic market. We believe this is a matter of equity, justice, and prudent fiscal policy. We also believe that the price should come from the user—not the taxpayer.

On the other hand, we hold that secondary or export market production should be priced at a level that will enable it to compete on the world market as far as possible without export subsidies. The decision as to whether to produce for this market should be left to the producer alone.

The Grange believes this combination of domestic parity and export competitiveness should be the objective of a rice program.

We think title III of S. 1702 accomplishes these objectives. This would certainly be true in the first-year operation of the program, especially in light of testimony that the Secretary would set the value of the domestic certificate at a point that would reflect a parity price.

After discussions with rice producers, we believe most of them also think that if this program could be continued at present levels of domestic consumption, it would be acceptable with some minor changes in terms of the discretionary authority given to the Department of Agriculture.

The real question is how much the domestic consumption would be reduced by the adoption of this program. Considerable conjecture exists on this question—except in the use of rice for the brewing industry where alternate sources of malting grains are available, especially corn. However, we are not convinced that the producers of a high-quality beer—and the users of rice basically are the manufacturers of a so-called premium beer—would substantially reduce their rice consumption. In whatever the reduction, there would be a reduction in the use of the domestically priced product.

The average consumer, in our judgment, does not know the cost of a pound of rice. Nor is his purchase of rice for the incidental dishes dependent upon the cost. Most American housewives purchase rice because it fits the menu and is a necessary ingredient in certain dishes. But, the fact remains, that rice is almost an incidental in our diet. For those who follow the normal eating patterns of American people, there will be little, if any, reduction in the use of rice.

A case is being made for those who use unusual quantities of rice in their diet—consumers in Puerto Rico, Hawaii, southern Mississippi, and Louisiana.

Their levels of consumption are well established by traditional eating patterns and not by the price increase in rice. Rice has joined the ranks of beans, which once were considered about the cheapest food available. This is no longer true. For those whose eating patterns are traditional and who earn the prevailing level of income in our country, there would not be a substantial loss of the rice market. There might be considerable griping, but this does not necessarily equate with market loss.

The real question is what to do with those who depend on rice and who are impoverished at the same time. This includes a part of Puerto Rico and a small part of Hawaii. Hawaii, in general, is not so impoverished that the purchase of rice would become an impossible burden. In Puerto Rico, it should be possible to make some exception because it is not a State, but rather a Commonwealth. Certainly we can continue the programs of direct distribution or expanded food stamp programs for those whose income is insufficient to purchase the needed levels of nutrition.

If the major concern of the opponents of this legislation is for these impoverished people, then a reduction in the amount of certificated wheat could well be arranged, and this could be allowed to be sold at an export level under certain control conditions.

The hard choice is whether the rice producers are going to have a continuation of the present program with the inevitable cuts in acreage and support resulting from an effort to bring the cost of this program into a reasonable relationship with the cost per producer of other commodity programs, or whether they are going to accept the proposed program. If rice producers accept the latter for at least 1 year, they are guaranteed about the same income as this year, the hope that adjustments will have been absorbed by the end of the first year, and the hope of continuation of the programs as designed.

Certainly, we cannot let the purchasing ability of the lowest level of our economic groups determine the maximum prices of our agricultural commodities. This is a welfare problem, not a food pricing problem, and the two should not be confused.

The Grange suggests some fears of these producers and producers of wheat would be alleviated by reducing the discretionary authority of the department in terms of the price levels that certificates should represent. We see no reason why the flexibility of 65 to 100 percent of parity is either required or justified. We would urge this committee to increase the 65 percent to 85 or even 100 percent. Therefore, many of the fears of the producers would be removed. This should not be any threat to the budget or to the programs.

It is the opinion of the National Grange that producers of rice will inevitably suffer a heavy income loss by the continuation of the present program, and they could probably escape this loss by the adoption of the proposed program. Therefore, we support the legislation which is proposed before this committee.

We believe that S. 211 contains a provision in section 380g—"Authority to facilitate transition"—which is a constructive suggestion and should be given serious consideration by this committee.

WOOL

At the 94th annual session of the National Grange in 1960 the following resolution was adopted:

"Whereas, during the 20-year period before the National Wool Act became law in 1954, domestic wool growers faced one uncertainty after another in the market outlook for their product, and

"Whereas the wool tariff reduction in 1948 under the Trade Agreements Act provided protection equivalent only to approximately 20 percent of the price received by producers compared with 77 percent in 1930, and

"Whereas shorn wool production in the United States has increased from 235 million pounds in 1954 to 265 million pounds in 1960: Therefore be it

"Resolved, That in order to attain the congressional goal of 300 million pounds per year production, the Grange favors extension of the National Wool Act of 1954."

For many years the Grange has advocated the commodity-by-commodity approach to the problems which beset our farmers. We have also recommended that, whenever possible, self-help mechanisms should be a basic feature of farm program planning, and the national interest is best served by programs designed to assure adequate levels of domestic production to move to market at fair prices rather than to Government storage.

The Wool Act of 1954 provides these features. The Grange supported this legislation when it was proposed and passed. And, today, after 10 years of experience with the program, our support continues.

At the 98th annual session last November the delegates of the National Grange adopted the following resolution:

"Whereas the National Wool Act of 1954 has worked very well as evidenced by the more than 90 percent favorable vote in the last referendum and the increased income to sheep producers: Therefore be it

"Resolved, That the National Grange urge the extension of the present law."

In line with our position in other commodities, we believe the amount of the payment made to wool producers should be modernized as in the legislation introduced by Congressman Poage in the House. This simply provides for an escalator clause to keep the fixed amount and the percentage of parity equal. It would increase the payment from \$0.62 to \$0.639.

The Grange therefore urges this committee to give favorable consideration to this change and to the extension of this legislation for at least another 3 years.

DAIRY

S. 399 represents the long-term objectives of the National Grange reaffirmed the last time in the 98th annual convention in Atlantic City, N.J., in November 1964.

The National Grange was an original supporter of the marketing order concept and supported its application to the milk industry, which was in a chaotic condition at that time. The purpose of such orders was to pool the class I market in the various marketing orders, so that the competition for this market would not result in a chaotic condition and disruption of adequate supplies for the consumer. The purpose of this legislation was not intended to set up a system in which milk producers in the lowest use classification would be required to continue to produce excessive amounts of this lowest price milk to maintain their share of the class I market.

However, the blend-pricing formula, introduced in the orders, has had exactly this result. Under this system, there is no way to reduce the milk production sold for the lowest use classification without reducing the individual producer's share of the class I market. There is also no way for him to increase his share of the class I sale, without increasing his production of the milk sold for the lowest use classification price. There is no way in which he can protect his share of the class I sale from those who would expand their production beyond market needs and, therefore, dilute the class I market.

As a result of this blend-pricing system, every individual is forced to carry his own share of the surplus production and the increase in the production of surplus milk by those who would further dilute the market. Briefly, this system is legalized economic aggression with no protection for the individual producing for the demands of the market to improve his price structure.

Under the blend-pricing system, the only alternative milk producers have for improving their income is to increase their output. Thus, we enter a vicious, self-destroying circle in which the producer continues to increase his production to maintain a substandard living level. By this, he further reduces his net income and his standards of living.

This is most dramatically illustrated during the 25 years of the order in the New York-New Jersey area, the largest of the Federal milk-market orders, where there has been relatively little improvement even though the order was put in to stabilize that market. For instance, in September 1938, which was the first time that the market order reports were filed for Federal Order No. 2, there was a utilization of 55.79. In September 1964, there was a utilization of 55.6. The annual average for 1958 was 54.63; for 1959, it was 54.69; for 1960, 51.25; for 1961, 48.54; for 1963, 47.95; and for 1964, it was 48.

A year ago, the then largest cooperative in the New York area testified the market situation was improving, and that there was no need for this kind of legislation.

I want to quote at this time, from the March 12, 1965, release from the market administrator of the New York-New Jersey milk marketing area. The acting administrator is Mr. A. J. Pollard. The following is the quote from the section of his release that is pertinent to this legislation. (See app. A attached.)

What this shows is higher production, lower consumption in the class I market, lower utilization, lower prices. What it does not show is our cost of production. This is a blueprint for disaster and is also shown by the fact that there are 1,888 fewer producers in this order than there were a year ago.

Let me further quote just in selected quotations from the "Fluid Milk and Cream Report of March 17, 1965."

"Fluid use prices in about 160 markets in the United States averaged \$5.30 per hundredweight in early March. This is 13 cents lower than February, 5 cents less than March last year, and 19 cents lower than the March 1963 average.

"Milk for fluid use in New England, averaged \$5.95 per hundredweight—22 cents under February, and 7 cents lower than March 1964.

"Class I prices in the mid-Atlantic States in early March averaged \$5.81 per hundredweight. This is 10 cents below February, and 4 cents less than March a year ago.

"East North Central fluid use prices in early March averaged \$4.38 per hundredweight—21 cents under February, and 14 cents less than March last year.

"Milk used for fluid purposes in West North Central markets averaged \$4.25 per hundredweight in early March. This is 13 cents less than the previous month, and 6 cents below a year earlier.

"South Atlantic region fluid-use prices in early March averaged \$5.91 per hundredweight in early March—7 cents below February, but 5 cents above March of last year."

East South Central declined 1 cent under March a year ago, and West South Central remained the same. Mountain States return was 1 cent less than in March 1964. The only place experiencing a price improvement was in the area where a substantial number of producers are marketing their milk under a two-price program as a part of State market orders.

In the past, a great deal of argument has been raised as to whether this class I base program would reduce the surplus of class III or grade B milk in a Federal order market and, thereby, stabilize at the same time the market for both the lower use classifications and the class I market. It would be the opinion of the National Grange that the acceptability of the program would be determined to a large extent by the cost-price relationships of the lowest use classification milk in the various sections of the country. On that basis, it would appear that the production costs of the Central Northeast would indicate that such a program would be more acceptable there, and probably in some of the Southwest where the production costs also are high.

In an excellent study done by Dr. David Cummins entitled "Implications of Cost and Price Relationships on Typical Dairy Farms" published in the August 1963 Dairy Situation, Dr. Cummins indicated that in the Northeast the total fixed cost is 80 cents per hundredweight and the variable cost is \$2.86 per hundredweight—a total of \$3.66. Even without the increase in the cost of production index that has taken place since that time, the gross return to the farmer for class III milk in the Federal Order No. 11 area of \$3.151 for March 1965 would indicate a net return of approximately the variable costs of production. This is far beneath the total of fixed and variable costs. The fact is that if the fixed costs of the total of the northeastern farmer's production were added to his sale for higher utilizations only and all class III milk production were eliminated, the net return to the farmer would be higher than at present as a result of producing some 52 percent of the milk for the lowest use classification.

It is not exactly incidental to this discussion to note that the fixed costs in the grade B area of Wisconsin are 94 cents per hundredweight, and the variable costs are \$1.75 per hundredweight—for a total of \$2.69. At present price levels, there is more profit in milk production for manufacturing purposes in the grade B areas of Wisconsin than in the production and sale of milk in the New York-New Jersey Federal Order No. 2, even though the class I milk return in these areas averages \$5.25 per hundredweight.

Mr. Chairman and members of the committee, efficient farmers now lose money all of the time in that important milkshed. They live off their inventory and

the increase in their indebtedness and deny themselves and their families some of the necessities of life—educational opportunities as well as more adequate living quarters. The only way these farmers can improve their net income and reduce their almost slavery level workload is to permit them, if they want, to reduce their surplus milk production while maintaining their share of the class I market.

Presently the farmer's business position is severely impaired by his ability to make this adjustment in production which is the first order of every well-regulated business. The first rule of every man who tries to improve his net income, regardless of the nature of his business, is the elimination of loss factors of the business. This primary business-management law is effectively repealed by the blend-pricing system.

The adoption of the class I base program is an expression of democratic principles and an incentive to better business management. It has the added advantage of reducing the supply of low-classification milk in the higher priced class I areas and probably would improve the market price in areas that depend entirely upon the sale for manufacturing purposes.

Although for purposes of establishing the class I base program S. 399 meets the objectives of the National Grange, we would point out that it appears to be deficient in one respect. We suggest that the following language be substituted for that section of the bill concerning producer-handlers:

"The legal status of producer-handlers of milk under the provisions of the Agricultural Adjustment Act, as reenacted and amended by the Agricultural Marketing Agreement of 1937, as amended, shall be the same subsequent to the adoption of the amendments made by this act as it was prior thereto."

POULTRY AND EGGS

A major concern of the Grange is the recent and persistent decline in egg prices to levels far below costs of production. The market has failed to climb to a price which could return a profit to the producers.

If legislation is introduced in the Senate, as in the House, to permit producers to establish marketing orders and quotas by the hearing or referendum process, it will have Grange support. We would like to submit testimony if and when such legislation is considered.

WORLD FOOD NEEDS

The blessings of an abundant harvest cannot and must not blind us to the fact that most of the world's peoples do not have enough food to meet the minimum requirements for healthy living. Many of them suffer from diets that are no more than starvation levels.

The dilemma which faces America is how to produce enough food to feed the hungry people of the world without, simultaneously, letting the surplus destroy our markets. We cannot delay a positive answer to these problems.

Psychological and propaganda values of our relief programs have been lost because these were largely surplus disposal programs. The time has now come when we must consider these programs on the basis of the desired nutritional levels in the recipient countries, rather than on the basis of the available surplus of agricultural commodities. To achieve this, legislation permitting the Commodity Credit Corporation to enter the market and purchase the foodstuffs required to fulfill our relief commitments should be forthcoming.

The postwar adjustments in agricultural production and food needs in the developed countries have proceeded to a point that we now should begin to develop programs on a multilateral basis. All of the exporting countries should make a proportionate contribution to the solution of the world's hunger problems. The cost of this program should be shared by the industrial and consuming nations of the world.

We are heartened by reliable information that the European Economic Community is at least ready for a serious discussion of this problem. The European Economic Community Commissioners have already recommended this action, and the subject will be placed before the Council of Ministers of the EEC for serious consideration in the near future.

If we will adopt a positive program to use the American productive and marketing know-how and combine it with the use of food for capital and relief programs, then we will begin to solve some of the problems at home and abroad.

The locking up of productive facilities of American agriculture in a permanent

program of acreage reserves reveals a lack of conscience in a needy world. Temporary expediency, of course, requires that such actions be done now. But such steps remain a highly questionable solution to the problem created by the excess capacity to produce food. Food has always fought for freedom. This was the case during World War I. It was the case during World War II, and it is still true in the use of our surplus food capacities to stabilize governments and economies in friendly, emerging nations since the end of World War II.

A simple fact of international political life during the decade of the sixties is that the first requisite for a free and democratic society in the emerging nations of the world and especially in the food deficit areas is an adequate and nutritious diet. Just as we believe adequate armament is necessary, we also believe an adequate diet is mandatory. This will not change in the foreseeable future.

A dynamic program using available foods and based on multilateral participation is extremely timely. We sincerely hope this committee, in cooperation with other Senate committees, will give some serious consideration to this problem before the 89th Congress adjourns.

THE FOOD AND AGRICULTURE ACT OF 1965

Because we see opportunity to develop the pending legislation into a sound and constructive advance toward a food and agriculture policy in the United States to serve American farmers and the Nation, we pledge the best efforts of the Grange to work with the committee in any way that may be helpful.

At the same time, the proposed legislation will improve the influence of the United States on food and nutritional problems as well as trade relations of the world.

APPENDIX A

FEBRUARY MILK EARNS DAIRY FARMERS \$4.26

NEW YORK, March 12.—Dairy farmers will receive a uniform farm price of \$4.26 per hundredweight (46.5 quarts) for February milk deliveries to pool handlers in the New York-New Jersey milkshed, it was announced today. The January price was \$4.36; dairymen got \$4.28 in February 1964.

The producer butterfat differential will be computed at the rate of 5.6 cents for each tenth of a pound of fat above or below the 3.5 percent standard.

Acting Market Administrator A. J. Pollard, who released the price, said that receipts from producers were 17,006,428 pounds higher than in February 1964, which was a 29-day month, but sales of fluid milk (class I) declined 13,404,127 pounds.

Receipts totaled 935,217,887 pounds, compared to 918,211,459 pounds a year ago, an increase of 1.9 percent. Fluid milk sales dropped to 445,231,618 pounds from 458,635,745 pounds, a decline of 2.9 percent.

Fluid milk sales accounted for 47.6 percent of the February pool. The percentage last year was 49.9. Handlers paid \$5.37 per hundredweight for milk they received in the 201-210 mile zone and used as class I.

There were 1,888 fewer producers than a year ago, Dr. Pollard reported, but average deliveries per day per dairy rose 78 pounds to 826 pounds per day per dairy. A total of 40,439 dairy farmers supplied the pool in February, compared to 42,327 last year.

WHEAT

Senator YOUNG of North Dakota. Mr. Chairman, I ask permission to have two statements of members of the North Dakota House of Representatives inserted in the record at this point. Both of these gentlemen express their views on what a farm program should be.

The CHAIRMAN. Without objection, the statements will be inserted into the record at this point.

(The statements are as follows:)

STATEMENT FILED BY RUSSELL DUNCAN, FARGO, N. DAK.

Mr. Chairman, before I begin my testimony I would like to thank this committee for giving consideration to my proposal to solve our difficulties. This is the No. 1 problem of agriculture.

It has become apparent that the present farm program is not working as we all thought it would. However, with a few changes that I would like to suggest, I am sure that it will be a big improvement.

There seems to be so much feeling against a so-called surplus, but in reality if the normal carryover and next year's seed were deducted, it would eliminate approximately one-third of the surplus. Then it would seem to me that every fairminded citizen would like to know that he had a few months' food in advance for his family.

In Egypt, in Bible times, they stored up 7 years' crop for the 7 years' drought to come. Seven years' drought could happen here in America. We wouldn't want to put ourselves in the position of asking Russia for food.

We have the opinion that we have increased our producing ability with better and bigger machinery, better seed and fertilizer, and new techniques and that nothing can reverse this trend. It is nice to build up our ego, but I farm 3,200 acres of land at Calvin, N. Dak., and use the best farming practices that I know of. I also have a seed company in Fargo where we endeavor to collect and process the best and newest varieties of seed and services for agriculture. Through the last 25 years that I have farmed, I can say that we have had some very lean crops, even though we have used the best of everything. We must realize that we have the elements to contend with in producing food, and they are no respecters of persons.

I very vividly remember the depression years and realize that one of the causes of it was that the buying power of the agricultural segment of our economy was almost nil. When that happens, industry soon loses its ability to keep people on the payroll. Those same conditions could happen even quicker and with much more devastating effect today than in the last depression. Even though American farmers comprise approximately one-eighth of the Nation's population, they still provide roughly 75 percent of the buying power in our economy, and we can readily see how quickly manufactured products could back up in our warehouses and labor go begging for jobs. In other words, as agriculture goes, so goes the Nation.

Agriculture is caught in that unique situation in that it has to produce to survive. A wheat farmer, for instance, who knows what his fixed expenses will be for a year will have to produce that many more bushels of wheat to pay those expenses if the price of wheat is allowed to go below 100 percent of parity, thus adding to our overproduction and storage problem which we are facing today. It isn't the American farmer's fault if he is supposed to be overproducing, but rather it indicates that industry has not found new uses for the surplus and that transportation and politics have made it impossible to get this surplus to the hungry people of the world.

This is America, and our very existence and growth have been brought about by our expanded and ever-expanding producing ability. We must consider it a blessing rather than a detriment. In the next few years our population will double and then our producing ability will become a necessity in order to survive in this family of nations. We may be real sure that some other nation not of our philosophy is real willing to sell and make available their food to underfed people, and of course, with their food, they are also trying to sell their way of life. Yes, food can become America's greatest force for peace on earth.

Any well-managed business must have a surplus to function safely—how much more so when we are dealing with food for the human family.

I would like to propose a plan that I have spent a lot of time thinking through, and here it is:

1. I propose that we go to bushel allotments instead of acre allotments. I believe that grades should be set up for wheat by the areas where these grades are raised, such as Hard Red Spring wheat, Winter wheat, Soft wheat, and Durum. Bushel allotments could be based on demand for the particular grades of wheat arrived at by the average yield for that area. For instance, if the average yield for Hard Red Spring wheat was 14 bushels per acre and the average consumption was 14 bushels times the allotted acres for that area that produced that market grade, then all the crop would be moved into the channels of cash wheat and consumed at 100 percent of parity. If the demand took more than 14 bushels times the allotted acres, then we would draw from the reserve in "on the farm storage." If the demand were for less than the average, then the extra bushels would go into the farm stored reserve with the storage paid by the Government.

2. I further propose that the grower get 100 percent of parity for the wheat that is used nationally, and that parity be figured on the past 3 years always. As each year passes, drop off the oldest year and add on the year just passed.

3. I further propose that the wheat not used nationally, whether it be 15, 20, or 30 percent, must be sold at world prices to hungry nations. Russia today is making great strides in the production of food and it is quite obvious, as was so clearly demonstrated in China, that food is a powerful weapon for winning over nations in need. If we are to curtail our farm production without regard to what Russia is doing, it could very well lead to a deplorable situation in our negotiations with nations who need food and have no means of helping themselves. I do not believe that the full means have been explored in disposing of surplus farm products. Needy people at home could use a great deal more food if they had the means to purchase it.

If this excess production is not disposed of in this manner, it then must be stored on the farm. It would then be at the discretion of the farmer as to whether or not he wanted to save 2 years' surplus, for instance: then not seed wheat the third year and use this surplus to fill his quota. The farmer would receive a storage allowance on the farm. This would basically be the ever-normal granary in operation and would provide a normal income for the farmer year after year at 100 percent parity. In this way, the Nation would be assured a food supply and the farmers would have a steady buying power rather than alternating between boom and bust.

4. I further propose that a great deal more effort be put into research to find new industrial uses for wheat, especially the sample grades, thus eliminating the cost of storing anything except the highest grades of wheat.

5. I further propose that the Government stop all storage payments and handling payments on all wheat in terminals and public warehouses, as this wheat will be readily absorbed in the channels of trade, because it would represent that portion of the crop that would be sold for national consumption. This would restore normal competition in the marketing and distributing of cash wheat. It seems imperative to national defense to have the excess wheat stored on the individual farms rather than to have it stored in large concentrations in a few spots where one dozen bombs, for instance, could destroy that many locations in a matter of minutes, thereby destroying a large percentage of the food supply. Also, this would leave the terminals free to handle the nationally consumed wheat in an efficient and orderly manner.

This plan would, in a few years, eliminate our "surplus" and still have a carryover on the individual farms that could be tapped quickly when needed. It would also eliminate the costly terminal storage problem.

We must maintain a healthy balance between agriculture and industry. One-hundred percent of parity simply means that \$1 worth of wheat will buy \$1 worth of steel.

The annals of history are filled with records of prosperous nations that are now extinct because they foolishly neglected their food supply. This could happen to America too.

We have found out, as with Cuba, that we can't restrict importation of food for political reasons. Some other country will take up the slack to our embarrassment.

It is my hope that out of this committee will come recommendations to Congress that will be the nucleus of a permanent, progressive farm program. We all agree that our present farm situation is serious. It is a national problem. We must all work prayerfully together for the solution.

STATEMENT FILED BY OTTO HAUF, MAX, N. DAK.

Mr. Chairman and gentlemen of the committee, I am Otto Hauf, a farmer near Max, N. Dak. I appeared before the Senate Subcommittee on Wheat in 1959 with a farm program. Today more than ever we need better prices for our farmers, especially in a State like mine where the economy depends so much on the income farmers receive.

I would like to recommend the following:

No. 1. Simplify the farm program.

Reason: Farmers do not like complicated programs.

No. 2. Combine payment of certificates for domestic and export by providing 115 percent of parity price on certificates.

Reason: Simplifies and does not confuse farmer as much.

No. 3. That the amount of bushels for certificates issued each farmer be based on number of bushels consumed domestically per acre times his allotted acres.

Reason: This would be more fair to the farmer in the low producing areas. Costs for living and machinery are just as high for him as one living in high producing areas.

No. 4. A farmer may overseed his allotment by 50 percent only to be set aside or to store the equal amount of bushels of wheat he has under certificate.

Reason: To be used in case of crop failure following year or hails out, etc. In some areas farmers only get one crop out of three.

No. 5. No farmer could get a loan if cash price is equal to loan value in his area. The Government should only guarantee loan value at all times and make loans only when cash price drops below loan value. This is why we should have a good price support in the first place.

Reason: Too much wheat is turned over to the Government under present program which could have been sold for equal value without Government expense of handling, storage, etc., and then dumping the wheat on the market anyway. Loans in existence would be redeemed any time the cash markets would pay up loan.

The Government is only to make loans when cash is below loan value, and not to have farmers gamble for higher prices at Government expense. Not nearly as much wheat would be turned over to CCC and Secretary of Agriculture would not have to dump grain on market or be blamed for it.

These suggestions I believe will help the farmer and save the Government money. I thank you.

Senator JORDAN of North Carolina. This table just given to me here is not a correct evaluation of the price of wheat per bushel. That is not what the miller is paying for the wheat. And that is what determines the price of a loaf of bread. The miller is paying \$1.94, I believe it is now, is he not, on the average? You have \$1.39 as the price in 1964. Wheat is costing the miller a good deal more than \$1.39.

The CHAIRMAN. I know that it is, plus the certificate.

Senator JORDAN of North Carolina. This would be difficult for a lot of other people as well as myself to understand.

The CHAIRMAN. In 1963 it was \$1.94.

Senator JORDAN of North Carolina. That is right. I understand that. That is what it was. In 1964 you would have to add the certificate onto that to make it right.

The CHAIRMAN. Yes, that will make it about \$2 a bushel. We will put it in there as you suggest. It will be put into the record in the correct form.

Senator JORDAN of North Carolina. That is the way that it should be reflected.

The CHAIRMAN. That is the last one that it applies to, that is, for 1964. That is the one in which we did not have the total cost reflected.

Our next witness is Mr. Dean McNeal, representing the Millers' National Federation. We will hear from you now, Mr. McNeal.

STATEMENT OF DEAN McNEAL, CHAIRMAN, COMMITTEE ON AGRICULTURE, MILLERS' NATIONAL FEDERATION, MINNEAPOLIS, MINN.

Mr. McNEAL. Mr. Chairman and members of the committee, my name is Dean McNeal. I am an executive vice president of the Pillsbury Co., Minneapolis, Minn., and chairman of the Committee on Agriculture of the Millers' National Federation.

I am appearing here today on behalf of the Millers' National Federation. The membership of the federation includes some 85 to 90 percent of the flour milling capacity of the United States.

We appreciate very much this opportunity to appear before you today to express our views on this important legislation.

It has been the long-established policy of the federation to take no position on farm legislation unless the interests of the milling industry are directly or adversely affected. In line with this policy, my testimony will be directed primarily to the provisions of section 379(d) of the Agricultural Act of 1938 as amended.

During the 1964-65 marketing year the wheat-processing industries of this country under existing legislation as interpreted by the Secretary of Agriculture are being subjected to a certificate liability or processing tax of 70 cents per bushel of wheat put into process. For 1965-66 this levy is to be increased to 75 cents per bushel beginning on July 1.

The amount collected in 1964-65, exclusive of export refunds or subsidies on flour, will be in the neighborhood of \$350 million based on an expected 500 million bushels of wheat processed for domestic use. For 1965-66 the wheat-processing tax collections on wheat processed for domestic use are estimated at \$375 million. If the total wheat support rate is increased to 100 percent of the so-called parity price for wheat as proposed by the Secretary under the provisions of S. 1702, if the parity price for wheat continues at its present level of \$2.57 per bushel, and if the wheat loan rate remains at \$1.25 per bushel, the annual tax burden on processors and domestic users of wheat and wheat products beginning July 1, 1966, would be increased to about \$660 million. For every penny the wheat parity price increases, the certificate cost increases \$5 million if the producer is to be given full parity.

Up to now the wheat-processing tax has been a serious financial burden to the flour milling industry. Theoretically, flour prices should have been increased sufficiently to pass the burden of the tax on to bakers and eventually to the ultimate consumers of wheat products. Thus far, however, the prices received by millers for bakery flour have not increased sufficiently to cover the cost of wheat certificates, and millers are incurring heavy financial losses on bakery flour production. Using the new figures published by the Department of Agriculture, the cost of our wheat this year on the average has been 26 cents a bushel higher than in the previous year. That is the gross cost of the wheat, including the certificate. Using also the U.S. Department of Agriculture figures the milling industry has not been able to realize that increase in the price that they are getting.

The CHAIRMAN. Well, now, I placed in the record a moment ago a table indicating that the farm value of wheat per bushel for 1963 was \$1.94—is that wrong?

Mr. McNEAL. I do not know the exact figure, but that would be pretty close to it, anyway. I do not know the exact figure, Mr. Chairman.

The CHAIRMAN. If the price support of wheat as it was in 1964 was \$1.39 and the certificate was 70 cents, for a total of \$2.09, would that not reflect the cost of the wheat?

Mr. McNEAL. It depends on what kind of wheat you are talking about.

The CHAIRMAN. That does not matter.

Mr. McNEAL. They are using all classes of wheat.

The CHAIRMAN. I am not talking about the quality, now, but all wheat, the same principle would apply?

Mr. McNEAL. Using all classes of wheat, our price will run some 9 to 26 cents a bushel. I am using monthly averages now. I am using published figures. But they would run from 9 to 26 cents a bushel, I believe, within a penny, anyway, per month higher relative to the previous price than the new support rate plus the certificate would indicate.

The CHAIRMAN. Why is that?

Mr. McNEAL. I think it is due to the fact, expressing an opinion only, I think it is due to the fact that when the program went into effect last June and July, the farmers had been used to working on \$1.82 farm price basis the marketplace, and when this was lowered substantially the farmer tends to hold his wheat more, and to get the wheat we needed to process into the products that we manufacture we had to pay more than the existing loan price. That is an opinion, but it is a rather set opinion.

Senator YOUNG of North Dakota. That was particularly true during the adjustment period when the changeover from one program to the other was underway, was it not?

Mr. McNEAL. That was quite sharply due at that time, to a lesser extent in recent months.

Senator YOUNG of North Dakota. You heard the statement by Mr. Graham of the National Grange when he said that the price of flour has not risen over the last year since this new program went into effect; is this true?

Mr. McNEAL. The price of flour has not risen as much as the wheat equivalent of 1 hundredweight of flour would indicate. I believe it has risen a few pennies per hundredweight.

Senator YOUNG of North Dakota. The millers then have absorbed some of the losses?

Mr. McNEAL. They have had to absorb some of the loss. The margins calculated by the Department of Agriculture, again for the first 10 months of this crop year, are down, I believe, about 9 cents a hundredweight net, and this comes about from the wheat price increase I mentioned, offset to some extent by a better feed market this past year. The mill feed portion has been better, but the net effect on published figures has been about 9 to 10 cents a hundredweight less margin for the flour mills than in the previous year. And our own experience would indicate that it has been at least this much.

Senator YOUNG of North Dakota. If this is true, then the cost of flour was not responsible for any increase in the cost of the loaf of bread?

Mr. McNEAL. This I am not sure, because I do not remember the average prices of flour. I do know that the price of flour did not go up as much as the increase in the price of wheat by 9 to 10 cents a hundredweight.

Senator YOUNG of North Dakota. Most of the increases in the cost of the loaf of bread in the last 20 years have come at a time when the cost of flour was not any higher and sometimes lower; is this not correct?

Mr. McNEAL. I would only answer that this way, and I think perhaps we should submit this for the record—I do not have it today, but

we have published prices which graphically show the relationship between wheat prices and flour prices for 20 years or more.

The CHAIRMAN. In the flour price you have included the increased cost of milling, but the farmer does not get that. You take, for instance, in 1947, as I pointed out, wheat was selling for \$2.35 a bushel and bread was selling for 11.9 cents a loaf. That is before the program. As of 1947-49, wheat averaged \$2.14 a bushel and bread sold for 12.7 cents a loaf.

Mr. McNEAL. He was speaking——

The CHAIRMAN. Whereas in 1963 wheat was at \$1.94 a bushel and bread went up to 20.7 cents a loaf. So it cannot be the cost of the wheat to the farmer that has caused the price of bread to go up.

Mr. McNEAL. The question, as I understood was as to the relationship between the increase in wheat cost and the increase in flour cost. That is what I was speaking to, not being in the baking industry I cannot go beyond that.

Senator YOUNG of North Dakota. We cannot expect you to testify against your best customer, the baker.

Mr. McNEAL. The gross margin by flour mills—and I will submit this, if I may——

The CHAIRMAN. I wish that you would. I wish that you would do this, if you will, give us the cost of the wheat, if you can get it, and the cost of the flour each year, and then the cost of the bread per loaf, and then the cost that actually made the cost of the bread go up. If you can supply that for us, we will appreciate it.

In other words, I can well understand in answer to the question of Senator Young's that there is no doubt but what the milling of wheat today costs more than it did 10 years ago. Labor is higher, transportation is higher—everything else is higher—but it is being spread around today this statement that if the wheat price goes up as much as 15 cents or 5 cents, why, it will make bread go up 2 cents a loaf. I do not believe that is true. That is what we are trying to show here, that that is a fallacy, because it did not react that way in the past when wheat prices were quite a bit higher per bushel than they are today, yet bread was about one-half what it is selling for today.

If you will give us a table like that we will have it placed in this record at this point after we check the figures.

Mr. McNEAL. Mr. Chairman, I can give that to you for wheat and flour prices of it. But when it comes to the bakery end of it, or the bread part of it, we would not have those figures.

I would like to say for the record now that during this 20-year period the gross margin of flour mills, despite the increased labor and transportation and distribution costs, has remained almost constant, and this will be shown in the exhibit that I would like to make a part of the record, if I may.

The CHAIRMAN. All right. You may.

(The information referred to follows:)

WASHINGTON, D.C., June 29, 1965.

HON. ALLEN J. ELIENDER,
Chairman, Senate Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In reading the transcript of the testimony of Mr. Dean McNeal on June 21 on S. 1702, we noted a few points we feel need clarification.

First, however, you asked that we submit for the record information showing the historical relationship between wheat costs and flour prices.

Attached is a graph which shows clearly the close relationship between wheat costs and flour prices for the past 18½ years, through December 1964. If these lines are mathematically converted to straight lines, they both decline gradually, with flour declining more rapidly. This demonstrates, as Senator Young pointed out, that flour prices have decreased in recent years, on average, in spite of higher labor, transportation and other costs.

Throughout the transcript an impression is given that wheat costs in 1964 were no higher than in 1963 or at least not higher than in most recent years.

Actually, using table 64, "Grain and Feed Statistics, Supplement for 1964 (USDA)," we find that wheat prices at Kansas City are higher in 1964 than in the previous 7 years listed. The average prices for No. 1 Hard Winter for the crop-years 1958-64 (11 months in 1964-65 crop year) are, respectively, \$1.94, \$2, \$1.94, \$2.05, \$2.25, \$2, and \$2.31. The latter includes the \$0.70 certificate cost per bushel. I believe a similar pattern is evident in all of the principal markets in which millers buy wheat. The factor chiefly responsible for the increase was the changeover from the \$1.82 loan level in 1963 to \$2 support in 1964.

In 1965, as you noted, total support will remain at \$2 and therefore any change in wheat costs will be due to other causes, as yet unknown.

Our very real concern, however, is with S. 1702 and the levels to which wheat prices to millers would be pushed. This bill, coupled with Secretary Freeman's statements of intent, would provide a loan at \$1.25 and a certificate cost of at least \$1.25, for a total of \$2.50 or more. This is a minimum of \$0.50 per bushel above the comparable figures for 1964 and 1965 and represents a 25-percent increase in wheat costs, or \$250 million per year. Of course, millers now pay well above the \$2 minimum, but the same pattern would be expected with a basic cost of \$2.50 or more. (H.R. 8629, now before the House Committee, ties total full support to full parity, which is now \$2.57. This difference of only \$0.07 would add \$35 million to millers' costs automatically. What parity will be by July 1, 1966, we do not know.)

On page 584 you say that the certificate program does not constitute a processing tax, presumably because it has not caused higher wheat costs—which it has. In 1966, under S. 1702, millers will be required to pay an additional \$250 million, at least, to an agency of the Federal Government for what can only be termed the right to process wheat. This money does not go into the market. Market prices are paid when wheat is purchased. The certificate levy is applied following processing and is not required unless and until the wheat is converted into flour and related products. The effect on the miller is the same whether the processor payments are made to the Commodity Credit Corporation or to the Internal Revenue Service. To him it certainly is a tax, especially that portion of the certificate cost which represents a Government-ordered increase in wheat costs; i.e., \$0.18 from 1963 to 1964 and \$0.50 or more from 1965 to 1966.

One final point: you referred on page 594 to the stabilizing of per capita consumption of flour "in 1962 when the program went into effect" at 116 pounds. Actually, of course, the certificate program did not go into effect until July 1, 1964. USDA statistics show that the stability you referred to occurred in calendar years 1963 and 1964—and the latter is preliminary. There have been other periods when consumption has increased or remained the same. We feel certain that the efforts of producers, millers, bakers, and macaroni manufacturers in the field of market development and promotion have been the key factor in occasionally stabilizing what would otherwise have been a rapidly declining market. I am not sure that our efforts would be fruitful, if they were to be continued, under the conditions which would be imposed by S. 1702.

Furthermore, we do not claim the 1964 and 1965 programs will reduce consumption, since as you point out, wheat prices are not drastically higher than in recent years. But, to repeat, we are concerned with what will happen in 1966 and beyond if wheat costs are forced up 25 percent or more over present levels. This liability placed against wheat products, and not all others against which we compete for the consumer's food dollar, certainly will not help increase consumption. We fear it will accelerate the decline.

I hope this information will be helpful to you in your deliberations on S. 1702 and that you will include it in the record of your hearings.

Kind regards.

Sincerely yours,

FRED H. MEWHINNEY,
Washington Representative,
Millers' National Federation.

INDEX OF WHEAT AND FLOUR PRICES

CROP YEARS 1946/'47 - 1963/'64

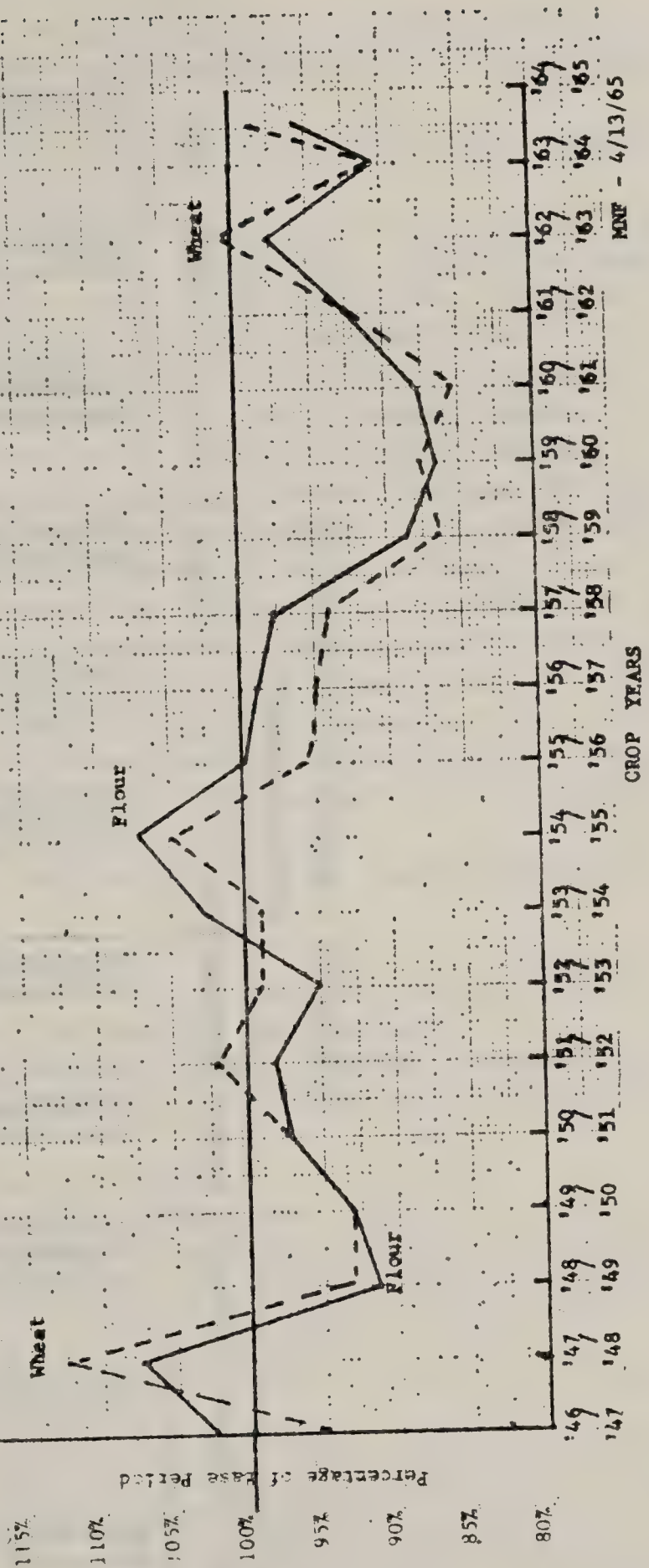
Base Period: Crop Years 1946/'47 - 1948/'49

Wheat - #1 Hard Winter, 15% Protein
Kansas City

Source: Economic Research Service
U. S. Department of Agriculture

Flour - Hard Winter, 95% Patent
Kansas City

Source: Bureau of Labor Statistics
U. S. Department of Labor



Price of No. 1 Hard Winter, Kansas City

[Dollars per bushel]

Year beginning July—	July	August	September	October	November	December	January	February	March	April	May	June	Average
1958—	1.84	1.85	1.95	1.97	2.00	1.98	2.00	2.03	2.07	2.09	2.03	1.92	1.94
1959—	1.94	1.99	2.01	2.05	2.05	2.08	2.07	2.10	2.12	2.10	2.01	1.95	2.00
1960—	1.89	1.94	1.98	1.99	2.01	2.02	2.04	2.05	2.02	2.00	1.96	1.92	1.94
1961—	1.98	2.04	2.07	2.08	2.12	2.14	2.09	2.11	2.12	2.13	2.17	2.19	2.05
1962—	2.22	2.25	2.23	2.19	2.31	2.28	2.27	2.30	2.33	2.37	2.28	2.03	2.25
1963—	2.01	2.05	2.11	2.21	2.22	2.23	2.25	2.24	2.18	2.27	2.17	1.55	2.00
1964—	1.57	1.61	1.65	1.68	1.69	1.66	1.64	1.62	1.58	1.55	1.52	-----	1.61
1964 ¹ —	2.27	2.31	2.35	2.38	2.39	2.36	2.34	2.32	2.28	2.25	2.22	-----	2.31

¹ Includes \$0.70 certificate cost per bushel.

Senator JORDAN of North Carolina. May I ask Mr. McNeal a question?

The CHAIRMAN. Yes, indeed.

Senator JORDAN of North Carolina. Mr. McNeal, there is a relatively small number of big producers of flour who handle bakery sales, is that not correct?

Mr. McNEAL. There are many who participate in this. There are several who would have a fairly good proportion of the business, not the majority, but a fairly good proportion.

Senator JORDAN of North Carolina. Who sets the price of flour—the Government does not do that, does it?

Mr. McNEAL. No, it is set as a commodity in this manner. Each day you have all of your top demand coming in. And then each seller will get in touch with him—well, each selling unit will be in touch with many dozens of buyers. Those buyers will be in touch in turn with many dozens of selling units. And from that process, using all of the factors you can, somebody will finally decide that they will sell at a price. This is going on, I would say, to where it finally will culminate in a sale. It is going on every minute of every hour of the day. And then each particular negotiation ends up with a different price, not necessarily a different price in dollars and cents, but there will be a separate negotiation for during a day's time there will be some differences in price, because you have so many different qualities of flour for various uses; so that it is a matter of, I would say, several dozen buyers and several dozen sellers using all of the information they can from the Government and other sources, negotiating in the marketplace. That determines what the price is that day.

Senator JORDAN of North Carolina. It is just plain competition among the millers?

Mr. McNEAL. Yes.

The CHAIRMAN. I presume that it is the same in the textile mills. They really fix the price that will be paid for the cotton.

Senator JORDAN of North Carolina. I do not know a thing about your business. Mr. McNeal, you sell based on what your raw material cost is.

Mr. McNEAL. We hope that we can do that.

Senator JORDAN of North Carolina. You have to do that. If it goes up just a penny you may not be like the textile people, smart enough to handle it. They are the dumbest people in the world, the textile people—I know, because I am a part of that—I know that.

The CHAIRMAN. I am sorry to see you make that confession. [Laughter.]

Senator JORDAN of North Carolina. We know that. We have tried to sell a little under cost, if we could beat the other fellow to an order. We did not care about making a profit. Maybe the flour people may be doing the same thing, I do not know. We got rid of many of our competitors in the past, but it was very difficult on those who remained in business.

Mr. McNEAL. We hope that this situation will be corrected.

Eventually, we hope this situation will be corrected, but to date the milling industry is unable to pass on the full amount of the present processing tax. The higher tax provided by S. 1702 would further

compound the serious income problems of this industry and further limit its opportunities for expanding consumption.

We strongly protest the singling out of wheat for the imposition of a processing tax.

The CHAIRMAN. Why do you call that a processing tax—it is not a processing tax at all. That is simply the name that you give it. What is the difference whether you buy wheat at \$2 a bushel direct from the farmer or from the Government, or pay \$1.30 for the wheat and 70 cents for a certificate to make it \$2? In either case you pay \$2.

Mr. McNEAL. Well——

The CHAIRMAN. I would like to know why you dub it as a processing tax, because I do not think that is correct.

Mr. McNEAL. I believe it says that you pay it for the wheat that you put into process. So you base the amount of your payment on the amount of wheat you process. And from that standpoint I would think that processing tax is a reasonable term for this tax. As I proceed with my testimony I would like to point out that there is an unequal treatment in this commodity, so far as the tax feature of this is concerned, which becomes unequal.

The CHAIRMAN. Unequal with whom?

Mr. McNEAL. For competing grains.

The CHAIRMAN. You cannot make flour that is used for bread from corn, can you?

Mr. McNEAL. No; but you can make carbohydrate foods which in today's economy are in abundance and become competitive with each other in the consumer's market basket, much more than has been true in the past.

The CHAIRMAN. That is, by using other commodities, I presume?

Mr. McNEAL. This is one of our major points.

The CHAIRMAN. Most of which are produced under conditions similar to those for wheat?

Mr. McNEAL. Well, except that your payments, going back to my testimony now:

Payments totaling \$1 to \$1½ billion are being made annually on feed grains. Payments in the neighborhood of one-half billion dollars are being made this year with respect to cotton. These and other commodity payments are being financed directly or indirectly by the general revenues of the U.S. Government. We do not believe there is a sound economic basis for this special financing arrangement on wheat, and we urge that whatever payments are authorized on wheat be financed in the same manner as the payments on cotton, corn, milo, and barley.

We have never felt it is our position to say that this type of program is good or bad for the farmer, but we do say that this is a different treatment for a commodity that is basic in our industry, different than is given to other commodities that we have to compete within the customer's market basket and in the industrial market.

The CHAIRMAN. I do not think it is a fact that you are treated differently at all. You pay virtually the same amount for the commodity. Your objection is that we do not want to pass that on to the consumer, rather you want the Government to pay for it. That is your argument, is it not?

Mr. McNEAL. If the Government does that for corn and the other competing commodities——

The CHAIRMAN. It does it for cotton.

Mr. McNEAL. In cotton there is about one-half billion dollars direct payment from the general revenue funds, I believe.

The CHAIRMAN. This year the cotton program, I think, cost about \$900 million.

Mr. McNEAL. I do not know that figure.

The CHAIRMAN. I mean a good deal of it was indirect payments made to the textile mills so that they could purchase cotton at world prices.

Mr. McNEAL. This is the big point that we have here. And I am coming back to some direct relationships on this in just a minute.

The CHAIRMAN. The point that I am making to you, though, is that the ultimate price of the wheat is not any more than it would be if you bought it as heretofore.

Senator JORDAN of North Carolina. Mr. McNeal overlooks one other factor in world trade and other commodities, other than wheat. Cotton is exported and it is supported at world prices. That part is true. But there is a tremendous tonnage of this cotton that comes right back into the country. They do not bring flour back into this country and products made from wheat in appreciable amounts.

Mr. McNEAL. There is some. We believe there would be under this legislation.

Senator JORDAN of North Carolina. A very small amount of it. And when I am saying "we," I mean to say that if we had the same protection in textiles that has gotten into wheat we would not worry about selling cotton, but we have no protection.

Senator YOUNG of North Dakota. On the average, what do you pay for wheat at the present time?

Mr. McNEAL. Well, it has been changing so fast because of the rains in the Southwest this past week. For a milling type of wheat in the Southwest—I am talking market price only now—it would be around \$1.50 something at Kansas City.

Senator YOUNG of North Dakota. How much do you pay for the wheat certificate?

Mr. McNEAL. Then there would be the 75 cents after the first of July.

Senator YOUNG of North Dakota. That would make a total of how much per bushel?

Mr. McNEAL. Oh, about \$2.25 to \$2.27 or \$2.28.

Senator YOUNG of North Dakota. What would the price difference be to the flour mills if Congress went back to the old price support program and supported the price of wheat at \$2 a bushel or if you pay a blended price including the lower price support and the wheat certificate. The wheat would cost the same to you, would it not?

Mr. McNEAL. The net effect of the wheat cost would not be quite the same, because at 70 cents or 75 cents or \$1.32, which would then be the proposed bill—if we had it at full parity—is at an absolutely fixed amount, and then you have a wheat support here which is in effect set in relationship to corn which, I think, it should be at about 20 cents above corn, under present planning; and then on top of that you have to pay whatever premiums are necessary to get the classes of wheat that you need, and then on top of that you have an absolutely firm 75 cents a bushel in 1965—last year it was 75 cents and will be \$1.32 or more or is under the proposal being considered here today.

Senator YOUNG of North Dakota. You have always had to pay premiums for higher quality wheat. In fact, these premiums have often been higher in the past than they are at present. In the past good Hard Spring wheat has drawn a premium of as much as 40 cents a bushel. You have always had that. I cannot for the life of me understand what difference there is to you whether you pay \$2 a bushel under the old price-support program or \$2 a bushel now, which is a lower support price and a wheat certificate which makes the price up to the \$2.

Mr. McNEAL. As far as the actual price, if you use those figures of \$2, the net cost to us, obviously, is the same, assuming that we can buy wheat at the support price basis, but when you have a wheat support of \$1.82, which is the one we had 2 years ago—I am using farm prices now, because that enables me to put it on a comparable basis—we were able to buy wheat at \$1.82—at certain times of the year we could buy ordinary wheat at \$1.82—and when we get it down to \$1.25 where there is a narrow difference with corn—a natural difference with corn—then wheat apparently is going to ride above this so that we get a different effect as far as the total cost is concerned up to this point. We would rather judge this would continue, although that is a look forward, admittedly.

Senator YOUNG of North Dakota. I think that you recognize that farmers cannot raise wheat for \$1.50 a bushel, do you not?

Mr. McNEAL. We are not debating what the farmer gets. We do not feel that is our function. We think this is something that the producers and the Congress should determine.

Senator YOUNG of North Dakota. This is something, of course, that we have to cope with, and our basic problem is whether or not we want to pass this on to the consumer. Under this plan, the millers would not be paying more than parity, which by government standards is a fair price for the wheat. Do we want to handle the problem in this manner or do we want the Government to pay more of the cost? This is our problem. The consumers complain either way. I think that the millers complain either way.

Mr. McNEAL. On the other hand, our point is that \$1 billion to \$1,500 million—I think the figures are—would be paid directly to the producers of feed grains, and that same kind of a tax is collected from us, from the consumer, hopefully we could collect it, but this is an unequal treatment between two commodities that compete with each other to a greater or lesser degree, depending on the end product that you are talking about. And, therefore, makes it inequitable as a situation which inevitably will limit if not reduce—I will not say reduce, because I do not know, but it will limit the opportunity to get wheat used to a greater degree.

The CHAIRMAN. I presume that you apply the same argument to the rice program?

Mr. McNEAL. Rice is the other commodity that would be in it.

The CHAIRMAN. Do you cover that?

Mr. McNEAL. No, we did not, because we are dealing strictly with wheat and flour here, but it would be the same. That is the one other that would be.

The CHAIRMAN. Please proceed.

Mr. McNEAL. Congress has just approved legislation to eliminate or reduce a number of Federal excise taxes. Ironically, the certificate liability on wheat constitutes the heaviest and most regressive excise tax being levied by the Federal Government. During the current year this levy adds about 40 percent to the cost of wheat to mills and to the cost of bulk white pan-bread type flour at Midwest mills. If the domestic support were increased to full parity, and the farm loan rate were set at \$1.25, the resulting certificate cost would be equivalent to more than an 80-percent excise tax on flour millers.

The director of research of the AFL-CIO was quoted in the Congressional Record recently on the subject of excise taxes:

Our position is based on our confirmed view that these taxes impose a proportionately higher share of the burden on low- and moderate-income families * * * these taxes are regressive and inequitable.

This special wheat certificate excise tax is directed at a basic food product which finds its greatest use among lower income groups. Surveys by the U.S. Department of Agriculture show clearly that the lower the income group, the greater their dependence upon wheat products—both in percentage of food expenditures and in the actual quantity or poundage of food expenditures and in the actual quantity or poundage of wheat products purchased.

This is demonstrated by the following tabulation based on USDA surveys:

Annual income per family	Percent of food budget for wheat products	Home use of wheat products per person per week
	<i>Percent</i>	<i>Pounds</i>
Under \$2,000.....	6.6	3.8
\$2,000 to \$2,999.....	5.9	3.2
\$3,000 to \$3,999.....	5.8	2.8
\$4,000 to \$4,999.....	5.3	2.6
\$5,000 to \$5,999.....	5.1	2.6
\$6,000 to \$7,999.....	4.8	2.5
\$8,000 to \$9,999.....	4.6	2.3
\$10,000 and over.....	3.8	2.2

The same relationship exists on the food budget spent for these products.

Senator YOUNG of North Dakota. I do not know of any labor organization that plans to testify before this committee opposing this program because of the increased cost of wheat in a loaf of bread. I think labor recognizes that the farmers would only be getting what, by Government standards, is a fair price. It is rather ironic that your organization is pleading for the labor organizations and they do not intend to testify for themselves.

Mr. McNEAL. I do not know about that, but I think it is rather interesting that this testimony was directed at the proposal to reduce excise taxes—the law we passed last week—on things like transportation and things of that kind, and usually in the range of 10 to 15 percent. And here is a tax on the basic food products, an excise tax to the extent of 40 to 80 percent, depending on which year you talk about.

Senator YOUNG of North Dakota. The wheat certificate was intended to be a part of the cost of wheat just as your processing charges

are a part of the cost of flour. We do not argue that your processing cost is a tax. It is a cost of the operation.

This additional certificate cost would merely help provide a fair price to the producer. I think this is a part of the cost of wheat to the miller. I do not see how you can consider it as a tax any more than any of your costs of processing wheat into flour is a tax.

The CHAIRMAN. As I pointed out a while ago, if it made the cost of flour go up, I would agree with him, but it does not. The market would fluctuate as to world price of wheat. I do not think that it would go higher than, say, \$1.25 to \$1.35. Your certificate remains constant, that is, the price of it, so that all you need to do is to add the 70 cents or whatever the certificate value is to the market price and that would not be in excess very much of what you are now paying.

Mr. McNEAL. Under the bill that you are considering here, we have been operating under a 70-cent tax. And then we go to 75 cents the first of July and then under the proposal the Secretary has indicated—I am not sure of his testimony—but he has indicated that he would be thinking in terms of about full parity. And the House, I believe, in their consideration made this mandatory, that is, in their report, that you would be talking about, instead of a 75-cent tax, approximately \$1.32.

The CHAIRMAN. The certificate, you mean.

Mr. McNEAL. The certificate.

The CHAIRMAN. Not a tax—all right, let us put it that way, because that is what it is.

Mr. McNEAL. Well, \$1.32 certificate. I do not think there is any question but what if the situation in the flour milling industry continues (in fact, a great number of units have ceased to operate in the past 2 or 3 years) that this 70 cents a bushel which is about \$1.61 in terms of a hundredweight of flour, would all have to be passed along in the form of higher flour prices.

The CHAIRMAN. If you raise the price to parity, it is bound to increase the cost, I agree with that, but I notice here that since 1963, and since this program went into effect, the consumption of flour per capita has not decreased—it has remained constant at 116 pounds per capita.

Mr. McNEAL. The per capita consumption of flour has gone down steadily for many years.

The CHAIRMAN. It has been 116 pounds per capita for 1963, 1964 and the indications are that it will be the same for 1965.

Mr. McNEAL. We have been quite encouraged the past few years that this, apparently, has leveled off. There has been a great deal of research done by the industry in advertising and promotion programs by the industry in conjunction with the wheat growers and others working together as a team.

We believe that this has leveled off that trend. We certainly would hope that it has leveled it off.

Senator YOUNG of North Dakota. You have had good advertising programs using television and radio programs and other media. This has helped.

Mr. McNEAL. We hope that it has.

Senator JORDAN of North Carolina. In the last few years a drive has been put on, on weight reduction, keeping the fat down. They told

me to cut out bread. I have not cut our bread, and I keep on getting fatter. [Laughter.]

That is your problem. You know that.

The CHAIRMAN. Please proceed.

Mr. McNEAL. In connection with our position that wheat should not be singled out among grain crops, the National Planning Association in 1964 issued a report recommending a joint program for wheat and feed grains because in their words—

the grains are interrelated in production and substitutable in various uses (and) they should be considered together in national agricultural planning—just as they are in individual farm planning.

The National Agricultural Advisory Commission, an official body appointed by the President, has likewise recognized the interrelationships between wheat and other grains and has recommended that the feed grain program become a—

more comprehensive land retirement measure designed to provide a cushion between agriculture's capacity to produce crops and the amounts currently needed—

and that—

the first step in broadening the feed grain program would be to include wheat.

Congress has authorized cooperating producers to substitute wheat for feed grains and feed grains for wheat. This substitution provision is economically sound and is popular with producers, but is likely to be an administrative nightmare so long as wheat and feed grains are treated as separate programs.

On the consumer side there are numerous areas of competition between domestically produced wheat products which are taxed and other domestically produced and imported products which are not taxed. Breakfast cereals are made from corn, oats, and rice as well as from wheat. Corn and rye as well as wheat are used in making bread, rolls, and muffins. Corn, rye, barley, and rice as well as wheat are used in the manufacture of beverages.

In a rough calculation we figure that there are more than 1,000 items in the grocery store that include flour or wheat products, so that we are talking a bit more than about bread. Our interest here is bread, but there are something of more than 1,000 products in the grocery store with some flour in them.

Untaxed bread is being imported into border areas of the United States. Untaxed high ash flour is imported into the United States in substantial quantities. Wheat gluten produced in the United States is suffering from the competition of imported wheat gluten on which no certificate liability is imposed. Wheat starch, if freed from the burden of the certificate processing tax, could be competitive with starch from other domestic grains and imported tapioca and other starchy materials in numerous food and industrial uses and applications. Huge quantities of starchy materials, both domestic and imported, are used in the paper and plywood industries. Research findings recently announced by USDA indicate a large potential use for wheat in the paper industry. But research designed to increase the use of wheat is discouraged or made useless by this heavy processing tax burden imposed on wheat alone.

Senator YOUNG of North Dakota. Both the Senate and the House bills contain an exemption for wheat certificates when flour is used for certain industrial purposes, do they not?

Mr. McNEAL. The exception is on certain clear flour.

Senator YOUNG of North Dakota. That is the kind used mostly for industrial uses you mention?

Mr. McNEAL. Yes, sir; more are used but there are some regular other flours, low-ash flour which is also used, and it would depend on where the definition of "ash" was made. If they made it only on the very high ash, it would affect a very small part of your wheat stream to the mill. It would depend on how that was made. There has been an attempt by the Secretary and in the present bill to exempt these.

Senator YOUNG of North Dakota. I would personally appreciate it if you would give us some recommendations as to what provision should be included in this legislation to take care of this problem.

Mr. McNEAL. We think the one proposed by the U.S. Department of Agriculture, which is in S. 1702 now is the proper approach to this.

Senator YOUNG of North Dakota. Do you think that provision should be broadened?

Mr. McNEAL. I think the one we have in this bill you are considering is a good provision and will give the three competitive market situations the ability to make their plans.

Senator YOUNG of North Dakota. What users will this benefit?

Mr. McNEAL. For the industrial users.

What the total effect of this wheat tax on consumption will be we do not know. But we do know there are numerous areas of competition involved. We know that an increasing percentage of flour is being bought by purchasing agents who are concerned with millions of hundredweights of raw materials, and they will not be unmindful of a tax cost of about \$3 per hundredweight of wheat flour, this is the total cost, in analyzing what they are paying for starch, protein, and other food nutrients. We know that a \$2.57 cost per bushel farm basis for wheat for domestic processing will result in unprecedented cost relationships among raw materials for food products. On a per pound basis this will mean a cost for wheat, farm basis, approximately $2\frac{1}{4}$ times the cost of corn, $2\frac{1}{8}$ times the cost of oats, 2 times the cost for barley, and $2\frac{3}{8}$ times the cost of grain sorghums. Such abnormal price relationships are certain to have an effect on the volume buyers of starch, protein, and other food nutrients and industrial raw materials.

This is our basic concern. Even in the consumer's market basket, they speak of this being a few dollars a year difference in the cost, but she looks at the penny or two that she has to pay on this shelf for this item versus a reasonably good product serving the same purpose on the next shelf. So it is this penny or two pennies a package that we are concerned about, because she makes that choice at the moment that she reaches for that particular package on the grocery shelf.

Senator YOUNG of North Dakota. There would have to be an awful lot of wheat in a package to make a difference of 1 penny or 2 pennies, would there not?

Mr. McNEAL. On some products it will make a difference of a penny or two pennies.

Senator YOUNG of North Dakota. On which products would the increased cost of the wheat cause such a price rise?

Mr. McNEAL. Increased cost of wheat will change the price of certain high flour content mixes.

Senator YOUNG of North Dakota. In the case of bread it would only make a difference, even with the increase in certificate costs, of about seventh-tenths of a cent per 1-pound loaf.

Mr. McNEAL. On a 1-pound loaf of bread.

Senator YOUNG of North Dakota. What increases in price would occur on other commodities?

Mr. McNEAL. A penny or two would be in your cake mixes and different things of that kind that are sold in packages.

Senator YOUNG of North Dakota. The cost of the wheat in cake mixes would go up as much as 2 cents?

Mr. McNEAL. Not 2 cents. It might on some large sized packages; yes. It would be more in the neighborhood of 1 cent.

Senator YOUNG of North Dakota. How large a package would that be? Would that be a 100-pound package?

Mr. McNEAL. No. [Laughter.]

Millions of dollars have been expended over the years in the search for new industrial uses for wheat products by the Federal Government, other public bodies and private organizations. Certainly, any incentive for industry to continue to spend important research dollars on developing new industrial uses for wheat is removed by this tax which so drastically changes price relationships between wheat and other grains.

Senator YOUNG of North Dakota. Most of it would be taken care of if we retain that provision in the bill.

Mr. McNEAL. This would help greatly, because obviously the pressure on the industrial side is greater than it is on the food side.

Senator MONDALE. Is that provision that you refer to presently in the so-called administration bill before this committee?

The CHAIRMAN. Yes.

Mr. McNEAL. Yes; it is in there at the present time.

In this regard, we urge the members of this committee to thoroughly examine this question of historic relationships between wheat prices and prices of other grains. The following information may be helpful to you in such a study.

I have about four or five different comparisons here and these comparisons show that in periods of reasonably free market play, wheat prices have ranged between 119 percent on a pound-per-pound basis and 128 percent of the price of corn. And similar relationships would be true of other feed grains. We think that more or less these are normal price relationships.

In the original parity price base period from August 1909 to July 1914, the average farm price of wheat was 88.4 cents per bushel (of 60 pounds), and the average farm price of corn was 64.2 cents per bushel (of 56 pounds). On a hundredweight basis the farm price of wheat in the original parity price base period was 128 percent of the farm price of corn.

During the period from 1910-14 to 1960 and 1961, USDA reports show that farm production per man-hour for food grains (mostly wheat) increased 9.7 times, and for feed grains (mostly corn) increased 8.6 times. The somewhat greater increase in the labor efficiency in producing food grains than feed grains over this 40-year period suggests one basis for a reduction in food grain prices relative to feed grain prices, a trend which seems indicated by more recent free price comparisons.

In the 3 calendar years 1947 to 1949, which is one of the few more recent periods when U.S. farm prices for grain were fluctuating more or less freely, the average farm price of corn was \$1.64 per bushel. On a per hundredweight basis during this period the price of wheat was 122 percent of the price of corn.

During the last 4 marketing years, including 1964-65 on a partly estimated basis, the export price of No. 1 Hard Winter wheat, ordinary protein, at the gulf has averaged about \$1.74 per bushel or \$2.90 per hundredweight. The export price of No. 2 Yellow corn at gulf ports has averaged \$1.36 per bushel or \$2.44 per hundredweight. On an export value basis, therefore, the price of wheat in recent years has averaged about 119 percent of the price of corn pound for pound.

All of the foregoing are indicative of more or less normal or natural price relationships between corn and wheat. They suggest that as of today normal and natural wheat prices probably would be less than 120 percent of the price of corn on a pound-for-pound basis.

In contrast to the foregoing indications of normal or natural price relationships, Government loan and certificate programs for the past 10 years have brought about very abnormal price relationships between wheat and corn prices in the domestic market. Current legislative proposals, if enacted, would further distort relative costs among grains and seriously discriminate against domestic processors of wheat and users of processed wheat products.

In the 3 calendar years 1957 to 1959, the relatively high loans on wheat brought about a farm price of wheat pound for pound that was 157 percent of the farm price for corn.

This is the 119 to 128 percent that I have mentioned to you.

The relatively high farm prices for wheat have, in turn, inflated the parity price of wheat and in April 1965 the wheat parity price was 157 percent of corn parity price pound for pound.

During the first 10 months of the current wheat marketing year, the farm price of wheat plus the 70 cents per bushel certificate liability has forced domestic processors of wheat to bear a raw material cost, farm basis, equal to 168 percent of the farm price of corn pound for pound.

Under S. 1702 up for discussion today wheat costs to domestic processors, farm price basis, would be further inflated to a ratio of 226 percent of the price of corn, assuming current parity for wheat and the \$1.05 per bushel loan rate on corn.

It is very evident that for the past 10 years corn processors have enjoyed a substantial Government-generated competitive advantage over wheat processors in competing for the numerous food and industrial uses of corn and wheat. This competitive advantage was increased by the program changes put into effect in 1964-65. A further increase in this competitive advantage is scheduled for 1965-66 when

corn loans rates are reduced 5 cents per bushel and wheat loan plus certificate costs are maintained at the artificial level of \$2 per bushel.

In justice to the processors of wheat and domestic users of wheat products, the Government-generated abnormal relationship between wheat and corn costs for all uses should be eliminated as rapidly as possible rather than being further distorted as proposed under S. 1702. On the other hand, if Government revenue needs require the imposition of certificate processing or excise taxes on farm crops to finance direct payments to the producers of those crops, the certificate taxes should be applied equally to all crops benefited. Increased or continued discrimination against domestic uses of wheat products is totally unwarranted.

The demands for wheat for industrial uses are quite elastic. The following table shows what has happened to the industrial utilization of wheat products over several years. This information is from a table taken from "Grain and Feed Statistics" published by the USDA.

Year :	<i>Industrial use (thousand bushels)</i>	Year—Continued	<i>Industrial use (thousand bushels)</i>
1955-----	678	1960-----	83
1956-----	497	1961-----	64
1957-----	276	1962-----	71
1958-----	114	1963-----	56
1959-----	86		

This is just for industrial uses, in the narrow sense of nonfood industrial uses. It has dropped to practically nothing, in 1963, or 56,000 bushels. So this has been a steady down trend and again discourages research on the part of industry and on the part of Government to try to get more uses for wheat.

It can be seen, therefore, that for a combination of reasons, primarily the growing distortion in normal price relationships between wheat and corn, industrial use of wheat has declined substantially. There is little chance that this trend will be changed as long as the high certificate cost is placed against wheat and wheat products and not against competing products.

While this legislation purports to provide wheat producers with a parity return on that portion of their production used for domestic food purposes, the results do not work out that way among the producers of the various classes of wheat. The domestic certificate payments are made to cooperating producers on the basis of a uniform 45 percent of their allotted production.

But the certificate tax is collected on approximately 80 percent of average Durum production; 72 percent of Hard Red Spring wheat production; 64 percent of Soft Red Winter production; 30 percent of Hard Red Winter wheat production; about 20 percent of White wheat production; and an average of about 40 percent of total production of all classes of wheat.

Senator YOUNG of North Dakota. This situation occurs because more of these other types of wheat are exported?

Mr. McNEAL. Yes; due to the fact that the domestic use of these that I mentioned on the high side is greater—a greater percentage of our total production than those for domestic purposes.

Senator YOUNG of North Dakota. You are not taking into consideration, of course, that we have had some unusually big crops of Hard Red Spring wheat and Durum wheat and more of these wheats is going into storage. You should take that into consideration.

Mr. McNEAL. Despite that 80 percent—the certificate is collected on about 80 percent of the Durum and paid back on about a 45-percent basis on the Spring wheat—I am sorry, it is on 72 percent, approximately, and it is paid back on the same 45-percent basis.

This discrepancy among classes of wheat becomes even more marked when the percentage of producer participation in the various areas is taken into consideration. Participation is relatively low in the Soft Red Winter wheat areas in the eastern half of the United States and as a result domestic certificate payments are being made on only about 25 percent of the Soft Red Winter wheat produced in these areas as compared with the 64 percent of their production on which the certificate tax is being collected. The inequities of the program are obvious.

If, in spite of the fundamental objections I have raised in behalf of the flour milling industry, the Congress should nevertheless see fit to continue the wheat certificate liability, the greatest care should be given to eliminating some of the inequities and undesirable economic consequences which are existing under the present legislation. This is particularly important if substantially higher certificate costs are to be expected.

In this connection we are pleased to note that the Secretary has requested a redefinition of food products which will permit him to limit the application of the wheat-processing tax to wheat products to be used for human consumption.

Getting back to the other point, this will permit a number of industrial uses of wheat—such as adhesives for plywood, pet foods, and wet-end additives in the paper industry to be exempted from tax without resorting to denaturing processes. We urge that the redefinition of “food product” as now contained in S. 1702 be retained if the legislation is approved. This change in definition would make it possible in the industrial-use area for wheat to compete with other grains on a normal or natural price relationship basis as described above. It would not give wheat any advantage over other grains even for industrial uses. We don’t believe Congress would wish to deny the industrial market to wheat producers which it would do if the certificate cost were to be imposed on all flour regardless of its end use.

Questions of discrimination arise inevitably when taxing provisions are included in agricultural legislation, and we firmly believe wheat users should not be discriminated against by the imposition of this heavy certificate processing tax levy. We recognize the need for adequate income and some Government assistance to wheat growers, but whatever payments Congress authorizes to be made to wheat producers should be financed in the same manner as the payment to or on behalf of the producers of cotton, corn, milo, barley, and other commodities, i.e., the general revenues of the United States.

We urge the Congress to delete from the existing and pending legislation any grant of taxing authority to the Secretary of Agriculture in the form of requiring domestic processors of wheat to purchase so-called wheat marketing certificates, or in any other form. Regardless of the terminology used, this is a revenue measure. This certificate program does not meet the test of reducing Government expenditures. It merely offsets some of those expenditures by a new and regressive form of Government revenue. Neither does this legislation

meet the test of encouraging greater use of the marketplace to bring a fair return to wheat producers except in the sense that any excise tax or sales tax becomes a market cost factor. Under this program wheat producers will be dependent on Government payments for an even larger share of their wheat-income payments they will received without regard to the quality or wheat they produce, the ultimate use of that wheat, or the guidance for the allocation of productive resources that would be afforded by the marketplace.

The CHAIRMAN. Thank you very much.

Senator YOUNG of North Dakota. That last statement is not exactly correct, because good wheat will command a premium under the wheat certificate plan, just the same as it did under the old plan, or would if we had no program at all.

Mr. McNEAL. I think that your statement is certainly correct. The only thing is that in many areas of the country we are already hearing, and some wheat-producing groups have talked about it, that they will produce wheat, a kind of wheat for feed rather than a kind of wheat for food and this is the only exception that I would make to your statement.

Senator JORDAN of North Carolina. I believe that in North Carolina we do not produce nearly enough wheat for our own mill grind right there. We have no surplus wheat down there at all. We have to import our wheat. Of course, the freight has to be added to that.

What is the difference between corn and wheat? The difference is in the production cost of the two articles. Corn grows more pounds per acre than wheat does in pounds per acre and it is a cheaper product to grow. It will sell cheaper.

Senator YOUNG of North Dakota. It does not cost as much to produce corn, either. You do not have the expensive machinery involved in its production.

Senator JORDAN of North Carolina. That is what I am talking about exactly, the cost of producing the corn.

The CHAIRMAN. I would like to clear up a point here about the use of wheat for industrial purposes. Under the old law the users of wheat had to pay virtually the same price that the wheat sold for for food purposes; is that right?

Mr. McNEAL. Yes; they had to pay a certificate on all of the wheat processed into flour. And there was no exemption for flour for other purposes.

The CHAIRMAN. If the wheat users paid \$1.90, let us say, for wheat last year and they paid for corn \$1.25, will not that difference—I mean the cost of the use of wheat as contrasted to the corn—be the same? You would not want to lower the price of wheat—I mean to those who use wheat for other than food purposes, would you?

Mr. McNEAL. We would like to have the cost of the raw materials just as they would be in a free marketplace so that the cost of the product to the industrial user would be such that he would be able to compete on the historic basis with the corn product, and that historic basis, I say, has been somewhere between 119 and 128 percent. Under this proposed legislation it would go up to 226 percent.

The CHAIRMAN. What should be done as to the wheat sold for industrial uses? Certainly it should not be sold at world prices. If it were, it would then, doubtless, hurt those who use other materials.

Mr. McNEAL. We do not believe that would be the effect, making one assumption. In the first place, I am not sure whether it was the Congress—I guess it was, yes, that has said that historically this 120 that they have established as the basic loan support or the loan support program, on the basis of some 20 percent over that of feed grains, and it has varied a little bit—but it has been basically that relationship for wheat over feed grains, and we think that wheat would always carry some support higher than the feed grains, and we think that historically that it has been that way, but when you start changing that historic rate we believe that to price wheat out of the market discourages research and we have done a lot of research on new uses; but there is no use to start new industrial use research if you are going to have to pay twice as much for your product than you historically paid before.

The CHAIRMAN. But you do believe, though, that under the language that is now in the pending measure which I introduced by request for the administration that it will be workable?

Mr. McNEAL. We think it will work very well so far as this part of the problem is concerned. We still have the same objection to the basic certificate program.

The CHAIRMAN. You want to get rid of that tax sort of thing?

Mr. McNEAL. Yes.

[Laughter.]

The CHAIRMAN. Very well. We thank you very much.

Mr. McNEAL. Thank you, Mr. Chairman.

The CHAIRMAN. We will go off the record.

(Discussion off the record.)

The CHAIRMAN. The committee will stand in recess until 2 o'clock this afternoon.

(Whereupon, at 12:25 p.m. the committee recessed to reconvene at 2 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Mr. Horning, have a seat, sir.

STATEMENTS OF ANSON HORNING, PRESIDENT, AND KEN KENDRICK, WASHINGTON REPRESENTATIVE, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. HORNING. I would like to have Mr. Meeker sit up here. Mr. Meeker is president of Kansas Association of Wheat Growers, and has a very short statement that he would like to make after I have completed mine.

The CHAIRMAN. You may proceed, sir.

Mr. HORNING. Mr. Chairman and members of the committee, my name is Anson Horning. I am president of the National Association of Wheat Growers. My home is at Larned, Kans.

The Chairman mentioned that we were in the news today with too much water.

The CHAIRMAN. I was in Larned in 1910 and in Great Bend in 1910 and also in 1911.

Mr. HORNING. Very good.

The CHAIRMAN. In that neighborhood. I pitched wheat there to pay my way through college.

Mr. HORNING. It is a real good wheat country.

The CHAIRMAN. Yes; undoubtedly

Mr. HORNING. First, let me express our appreciation to the Senate Agriculture Committee. I appreciate this opportunity to present testimony for the National Association of Wheat Growers.

Let me express our appreciation to the Senate Agriculture Committee for its leadership in securing wheat legislation last year. While this voluntary legislation did not fully restore wheat income to the 1962 or 1963 levels, it did restore about two-thirds of the support loss that cooperators would have experienced without wheat legislation for 1964 and 1965.

Gross wheat income in 1962 was \$2.5 billion; in 1963, \$2.35 billion; and income under the present certificate plan is estimated to be just over \$2.2 billion for 1964 and 1965. This indicates that since 1962 gross wheat income is down about \$250 million. This reduction represents a sharp loss on the net income side to wheat farmers.

During this same period everything the wheat farmer has purchased in order to produce wheat since 1962 has been gradually increasing in price. Other segments of our national economy have been experiencing an unparalleled level of prosperity. You just cannot cut down on gross income, then increase expenses year by year without a substantial drop in net farm income. This is what has happened to wheatgrowers.

Wheatgrowers have made tremendous progress in operating efficiently to offset the increasing cost-price squeeze. Farm units have been forced to adjust upward in size in order to meet this economic problem. Smaller farm units have been and are being abandoned and absorbed by larger units. However, there is an efficiency breaking point when additional capital and labor are added. It is these conditions that place the family farm in jeopardy.

The inevitable result is an ever-increasing number of farmers going to the city to overcrowd the city's working force or increasing the numbers on the relief rolls. The age of many farmers precludes retraining for industry, and in many cases contributes to the poverty problem in our cities.

As the number of farm families decrease as well as their net income, this double tragedy is being felt by every business and profession in the towns and cities of the Wheat Belt. Implement dealers are forced to sell on smaller margins. Banks are limiting credit. Professional people have clients who are unable to pay. This is creating rural areas of poverty, and eventually will have an adverse effect on the overall economy of our country.

Our concern is for a program which will benefit wheat producers, and help stabilize all segments of our economy, including local schools, churches, and businesses as well as those located in Detroit, Chicago, and other urban areas.

In the past 17 years prices received by wheat farmers have dropped about 30 percent while the prices paid by consumers have increased by 29 percent. Latest figures indicate that consumers now spend only 18.5 percent of their income for food.

Mr. Chairman, there have been many printed reports in recent months indicating that perhaps our 1 million most efficient farmers do not need any kind of Government support and could successfully compete with other segments of our economy without farm programs. This simply is not true.

Economic studies indicate that without the price stabilization programs of recent years net farm income would now be between \$6 and \$7 billion instead of \$12 billion.

An even more recent study indicates that our 140,000 largest farmers whose gross sales average more than \$40,000 annually and whose net income is about \$10,000, without price stabilization programs and Government payments during the past 3 years, this group of commercial farmers would have operated at a loss of about \$10,000 a year. The facts indicate that only 300,000 to 400,000 farmers out of over 3 million receive full parity for their labors.

The committee is considering the omnibus farm bill S. 1702. The National Association of Wheat Growers strongly supports the wheat section of S. 1702 as modified by the Wheat Subcommittee of the House.

Modifications recommended for S. 1702: 100 percent of parity on domestic consumption. Senate bill 1702 provides that price supports for wheat with domestic certificate would be between 65 and 100 percent of parity. Secretary Freeman has presented testimony indicating that price supports with domestic certificates would be set at 100 percent of parity for 1966.

Once certificates are increased to full parity which would indicate a seven-tenths-of-a-cent increase in the price of a 1-pound loaf of bread we know that in subsequent years, if the value of the certificate is decreased there would not be a corresponding decrease in the price of bread. Hence, the national association recommends a modification of S. 1702 which would provide that price supports for wheat with domestic certificates shall not be less than \$2.50 per bushel.

The National Association of Wheat Growers recommends a 4-year bill rather than a 2-year bill. Farmers are tired of constant and frequent changes in farm programs.

May I add here this is one thing that I get as I go across the country, continual change and dissatisfaction expressed by the farmers.

The CHAIRMAN. The trouble is that the farmers do not get together.

Mr. HORNING. They do have trouble getting together.

The CHAIRMAN. That is the trouble. If you do not get together, how do you expect the Congressmen to get together?

Mr. HORNING. It makes it really difficult.

The CHAIRMAN. Yes.

Mr. HORNING. Just about the time they learn how the program operates, it is changed. Most of our wheat is grown on summer fallow land. This means a farmer must plan his operation at least 2 years in advance. Frequent program changes preclude long-range planning and contributes to further complicating the operation of farm programs.

Most wheat farmers are unable to pay cash for new farm machinery. In many cases payments are made over a 3-year period. Machinery dealers are reluctant to extend this long-range credit unless farm programs are assured during the credit period.

Mr. Chairman, we believe our farmers consider the long-range feature of the bill second only in importance to the 100 percent of parity section of the bill. We strongly support this modification.

NAWG recommends that:

The amount of wheat included in the marketing allocation for food products for consumption in the United States shall not be less than 500 million bushels.

This would provide stability of income for wheatgrowers. The National Association of Wheat Growers supports this modification of the bill.

NAWG recommends reinstatement of oats-rye base privilege. This provision is contained in the 1964-65 wheat legislation but has been deleted from S. 1702. For purposes of using the substitution clause feed grains are defined as corn, grain sorghum, and barley. In some areas of almost every wheat State farmers have planted either oats or rye for feed grains. Hence, in these States farmers are unable to use the substitution clause. We recommend that oats and rye be reinstated in S. 1702 similar to the provision in the 1964-65 wheat law.

Wheat used for industrial purposes: The amount of wheat used for industrial purposes has been steadily declining for a number of years. NAWG recommends that flour clears not used for human consumption be exempt from certificate requirement. There are those who say this subsidizes wheat prices unfairly in competition with corn for industrial purposes.

If flour clears used for industrial purposes are exempt from certificates requirements wheat would be available at \$1.25 per bushel for industrial uses. May we point out that corn is supported at \$1.05 per bushel. On a pound-for-pound basis corn is supported at 1.87 cents per pound while wheat is supported at 2.08 cents per pound. Thus we note that wheat prices are supported 11 percent higher than corn prices. Hence, we conclude that with wheat supported at \$1.25 per bushel it is still not fully competitive with corn at \$1.05 per bushel.

There are those who argue that with the passage of S. 1702 with wheat certificates at \$1.25 per bushel, and corn payments at only 20 cents per bushel, then wheat is unfairly subsidized for industrial purposes. Let us examine these payments on a per-acre basis. Based on normal yields wheat income from \$1.25 certificates on 45 percent of the allotted acres, income per acre for wheat would be \$14.56. Corn income per acre with payments of 20 cents per bushel on 100 percent of the production on allotted acres, income per acre would be \$13. Thus we see the per-acre income differential would be quite nominal.

By exempting flour clears not used for human consumption from certificate requirements, we provide an opportunity to maintain our present industrial markets for wheat and share in this growth market in future years. The National Association of Wheat Growers urges the committee to make this modification in S. 1702.

These five modifications of the wheat and feed grain sections have been made in the House bill. We respectfully urge the Senate committee to give consideration to making these changes in Senate bill 1702. These changes are extremely important to the wheatgrowers of this Nation—

The CHAIRMAN. Would you want to change the formula for permitting the Secretary to fix the price at 65 to 100 percent of parity? Do you think we ought to tie it in at 100 percent?

Mr. HORNING. We feel it should be pretty rigid on this 100 percent on the domestic portions; yes, sir.

The CHAIRMAN. The domestic consumption of wheat today is about 500 million bushels per year.

Mr. HORNING. Yes.

The CHAIRMAN. For eating, for food.

Mr. HORNING. That is correct.

The CHAIRMAN. You do not want to tie that down?

Mr. HORNING. There might be a chance that that would increase.

The CHAIRMAN. You want a minimum?

Mr. HORNING. A minimum of 500 million bushels; yes, sir.

The CHAIRMAN. How do you expect to get payment at full parity? What would have to be the value of the certificate?

Mr. HORNING. I believe the parity figure changes a little. We suggest the minimum should not be less than \$2.50 and if you have a support of \$1.25, then the certificate would be \$1.25.

Mr. KENDRICK. This might vary, Mr. Chairman.

The CHAIRMAN. So that instead of getting a certificate at 70 cents that we have been talking about, you would want to make it \$1.25?

Mr. KENDRICK. Correct.

The CHAIRMAN. Proceed.

Mr. HORNING. The changes are extremely important to the wheat-growers of this Nation, because they would provide more flexibility in the program, assure farmers a long-range program, enable us to maintain our industrial wheat markets, and would add little, if any, cost to the program.

The CHAIRMAN. What would you expect in wheat that is sold abroad or exported?

Mr. HORNING. That might be a difficult one to answer.

The CHAIRMAN. But we have got to face it.

Mr. HORNING. \$1.25 on a national average——

The CHAIRMAN. In other words, what you really are asking for is that on the wheat in excess of 500 million bushels that you be paid more or less worldwide prices.

Mr. HORNING. Correct.

The CHAIRMAN. And on domestic consumption——

Mr. HORNING. Full parity.

The CHAIRMAN. Full parity.

Mr. HORNING. Correct.

The CHAIRMAN. The full parity to be provided by a support price of——

Mr. HORNING. \$1.25 plus.

The CHAIRMAN. \$1.25 plus the certificate of \$1.25.

Mr. HORNING. Correct.

The CHAIRMAN. That is the way you envision it.

Mr. HORNING. That is correct.

The CHAIRMAN. Proceed.

Senator AIKEN. What do you estimate the world price to be now, \$1.80?

Mr. HORNING. Laid down at the port—I do not have the latest data, but it is somewhere around \$1.60 to \$1.65; something like that.

The CHAIRMAN. That includes freight?

Mr. HORNING. Yes.

Senator AIKEN. That is laid down, say, in New Orleans or Baltimore?

Mr. HORNING. Yes.

Senator AIKEN. You do not use the Fort William price?

Mr. HORNING. I believe they are pretty closely tied together.

Senator AIKEN. There would not be much difference other than for transportation differences?

Mr. HORNING. That is right.

Senator AIKEN. All right.

PROJECTED YIELDS

Mr. HORNING. The National Association of Wheat Growers supports the provision in S. 1702 to change from normal yields to projected yields. We feel this change will greatly simplify the program at the county level. Projected yields as outlined in the bill would tend to more nearly reflect the actual yield on the farm as compared to the normal yield which we have been using.

The CHAIRMAN. Can you explain to us, either of you, how would the method of figuring projected yields differ from normal yields?

Mr. HORNING. There has always been, I believe, about 2 years behind. I will let Mr. Kendrick explain further—but by using this projected yield, then you use the past years' yield and the Department has figures, they have their calculations, whereby they came up very closely to the projected yield.

The CHAIRMAN. It must be an advantage to you——

Mr. HORNING. Yes.

The CHAIRMAN (continuing). If you desire it that way and that is what I would like to find out, where does the advantage lay.

Mr. KENDRICK. Under the normal yield at the present time, which, as you know, has been going up, there is about a 3-year lag, and maybe a farmer's normal will be 20, and last year he raised 22, 23, or 25 bushels. This, under the normal-yield method is the way it has been.

Under the projected yield, as I understand the Department's operation of this, it would just simply accelerate this. Instead of being 3 years behind it might be a year and a half behind, so that the projected yield would more nearly reflect the actual yield the farmer is producing.

The CHAIRMAN. Well, it would more nearly reflect it because he would take the last production years.

Mr. KENDRICK. Instead of using 10 years, they come down to 5 to the State and maybe 3 to the farm or 3 to the county, instead of the old 10-year average. It would operate no differently than a normal yield except——

The Chairman. It would use fewer years and the latest years.

Mr. KENDRICK. It accelerates the change a little bit, that is all it does.

Mr. HORNING. It does not make an advantage to the farmer.

Senator AIKEN. Would you use the same formula for projecting the yield for winter wheat that you do for spring wheat? For winter wheat you could project it earlier, couldn't you?

Mr. HORNING. It would be a very slight difference.

Senator AIKEN. The new season begins by the time you know what you are going to get for the Spring Wheat, what kind of a yield, rather. You think it could be worked out?

Mr. HORNING. I think it would be worked out by the Department, and there would not be any disparity between the two.

Senator Aiken. Do we export much Spring Wheat? We do Durum.

Mr. HORNING. I do not know the amount that is exported. We are handicapped on freight in Vancouver.

Senator AIKEN. You export Durum——

Mr. HORNING. Yes.

Senator AIKEN (continuing). And pastry wheat.

Mr. HORNING. Yes. We have quite a market for Spring Wheat, and we have some real marketing problems in getting it to the west coast in position.

The CHAIRMAN. In order to effectuate the projected yield formula, all you would need to do would be to change the years from 10 years to 5, am I right in that?

Mr. HORNING. This is correct.

Mr. KENDRICK. With the exception that the actual county level I think you come down to 3 years, and 1 year on individual farms.

The CHAIRMAN. I understand. But should it go down, what then? In other words, suppose you had a——

Mr. KENDRICK. The same thing would operate, Senator.

The CHAIRMAN. In other words, the——

Mr. KENDRICK. If for 3 or 4 years your wheat yields has been going up, under the old normal yield you would eventually get an increase. And under the projected yield you would just speed it up a little bit, get there a little quicker. It would catch up with you a little quicker.

Under normal yield if your year-by-year production is below normal, you lose a little, and under the projected yield if, for 3 years, you raise below normal, then your loss would be reflected sooner. Yes, sir. It tends to reflect what is actually happening on the farm.

The CHAIRMAN. Well, the trends and weather conditions and all remain as is.

Mr. KENDRICK. Yes; that is correct.

The CHAIRMAN. All right. Proceed.

Mr. HORNING. On cropland adjustment program, this program is designed to supplement our commodity programs, to retire allotted crop acres for a period of years, make our commodity programs work better, avoid further reductions in acreage allotments as yields increase, and substantially reduce the acreage required to be diverted under the annual grain programs. The National Association of Wheat Growers is in full accord with these objectives as outlined above.

To be eligible to participate in the cropland adjustment program a farmer must retire at least 100 percent of one allotment crop. We believe participation in the program would be greater—further costs saving per acre would be achieved—if the requirement of 100 percent of one allotment crop was relaxed to 50 to 100 percent of one allotment crop to be eligible to participate.

In others words, we believe it will be easier and cheaper to get four farmers to retire 50 percent or more of one allotment crop than to get two farmers to retire 100 percent of their allotment. We respectfully

urge the committee to give consideration to this suggestion as a method to improve section 501, and it would also tend to keep farmers on their farms if they did not have to retire the entire part.

On transfer and sale of allotments, title 6, section 601, the National Association of Wheat Growers opposes the transfer and sale of allotments for wheat. Although it is our understanding that section 601 would not apply to voluntary programs such as the wheat and feed grain programs—our association feels that it would not serve the best interests of wheat growers to transfer or sell allotments.

The CHAIRMAN. Unless land is sold with it.

Mr. HORNING. That is understood; yes.

The CHAIRMAN. I understand. I am in agreement with you.

Mr. HORNING. Yes.

On the substitution clause, we strongly support the substitution clause provided in the wheat and feed grain sections of S. 1702. This section provides farmers with greater flexibility and freedom in the operation of his farm—lets him plant the crops that are best suited for the land. We urge that it be maintained in the bill.

OVERSEEDING PRIVILEGE

The National Association of Wheat Growers supports this provision in S. 1702. There are a few areas in the summer-fallow wheat country where wheat is the only practical crop to grow and many of these farmers do not have a feed grain base, and are unable to use the substitution clause. The overseeding privilege gives farmers in high-risk areas an opportunity to overseed and store the excess at his own expense on the farm. When he underseeds or short crops come along, he can release enough excess wheat to equal his normal yield. This provides farmers in high-risk areas an opportunity to stabilize their income.

The CHAIRMAN. Would you limit that provision to certain areas or make it applicable to all wheat areas?

Mr. HORNING. I believe as it is by regulation as it is now. It applies to all areas now. You cannot use the substitution clause and overseeding privilege. The farmer must make a choice.

Mr. Kendrick, do you have anything to say?

Mr. KENDRICK. It is in the law, I believe, Mr. Chairman. If a man has a feed grain base, and a wheat base, then he uses the substitution clause. But if he has nothing but wheat, then the overseeding privilege takes care of him so that he can overseed and store the surplus on his own farm, and then if he has a bad year he can sell up to his normal yield and stabilize his income.

The CHAIRMAN. That is irrespective of where wheat is grown?

Mr. KENDRICK. Yes, sir. But, you see, automatically the farmer who has a good feed grain base and a wheat base will not be interested in using the overseeding privilege.

The CHAIRMAN. I understand that. But that is a privilege that could be given to other growers, too, because I do not like this overseeding. You know sometimes, no matter how small the amount of wheat and corn you have on hand over and above our need, it has a tendency of hanging over the market and depressing it.

Mr. HORNING. Of course, the provisions, I believe, that were written in by your committee last year pretty well tie this one down to where there is not much possibility of that happening.

The CHAIRMAN. Proceed.

RESALE OF COMMODITY CREDIT STOCKS

Mr. HORNING. With domestic certificates increased to full parity the National Association of Wheat Growers would not oppose some increase in the selling price of commodity credit stocks of wheat and feed grain provided this did not adversely affect other features of the bill such as: (1) the loan level for wheat or feed grains is not adjusted downward; (2) the substitution clause remains effective.

Mr. Chairman, there are those who advocate increasing the resale price of wheat and leaving feed grain resale prices at present levels. We are absolutely opposed to this. It would cause our stocks of wheat to increase thus increasing Government costs and eventually eliminating the use of the substitution clause. We are opposed to any increase in the resale price of CCC stocks unless both wheat and feed grain resale prices are increased by the same percentage.

WHEAT

The language in S. 1702 provides authority for use of export certificates. However, it is our understanding this authority will not be used unless the world price for wheat drops below the minimum International Wheat Agreement price. Although S. 1702 does improve income to wheatgrowers by about \$150 million compared to income under the 1965-65 wheat program gross wheat income under S. 1702 would still be \$100 million less than 1962. Production expenses have continued to rise each year since 1962. Mr. Chairman, the wheat farmer is in a real cost-price squeeze. We believe he should be receiving an income at least equal to the 1962 levels, providing this can be achieved and still provide further reduction in the cost of the program to the Government.

May we respectfully urge the committee to amend S. 1702 to provide that 25-cent export certificates would be required on 30 percent of the normal yield. This would add about \$85 million to wheat-grower income and bring the total gross income up to the 1962 level. If this is done costs of the program will still be about \$30 million less than the 1964-65 program. May we point out, too, that the 1964-65 wheat program reduced the Government cost of the wheat program by \$250 million.

The CHAIRMAN. You do not want to do this by direct limitation; that is, establish the differential between world prices, which could go down, and then the amount that you suggest they should receive for export certificate wheat.

Mr. HORNING. If this were on an export certificate it would be calculated on a man's allotment just the same as your domestic, and it would be a 25-cent payment instead of, say, \$1.25.

The CHAIRMAN. How would that work—what effect would it have in fixing the world price of wheat? You would want to pay—you would want the farmer to receive this 25 cents over and above what the world price is, and what would you fix that minimum world price at?

Mr. KENDRICK. On the farm, I think it would be close to, where it is now, \$1.25, maybe \$1.20. It might average \$1.20 on the farm, and your transportation costs come to 20, 30, 40, 50 cents above that.

The CHAIRMAN. I believe we ought to be very careful in making it so that we won't put anything in this bill that will cause the world price to fluctuate except under normal conditions.

Mr. HORNING. I would agree.

The CHAIRMAN. In other words, we want to really be in a position where we could compete with any grower throughout the world.

Mr. HORNING. We have certainly worked along that line, Mr. Chairman, and just a little further along I have another part of this statement that ties into the suggestion where this might be placed.

The CHAIRMAN. You know what the support price program of ours results in. We always get licked——

Mr. HORNING. That is right.

The CHAIRMAN. In world sales of wheat. They found out what the support price was, and they would just cut down a half cent under our price and, of course, take the cream of the trade for themselves. This time we want to make it so that we can compete with them and not be held back, a program that would give them a notion in advance of what the price would be, we do not want that. We want to be free, in other words.

Mr. HORNING. Yes.

The real problem here is in cutting out this particular income to the wheat farmer, which adds to the domestic side, and then we cut a certain amount off of export, and the income to the farmer still then does not come up quite to expectations. So I do make another suggestion just a little further along.

The CHAIRMAN. Proceed.

Mr. HORNING. Even with this amendment the total cost of the wheat program will be only about \$150 million if we exclude Public Law 480 and food-for-peace costs. While we admit the costs of our special disposal programs are sizable, we do not admit that all these costs should be charged to agriculture.

We know of no better way to promote peace in the world and retard the progress of communism than to use our abundance of agricultural commodities to feed hungry people, to prevent the spread of disease and promote good will. We believe that Public Law 480 and food for peace programs benefit all Americans and the costs of these programs should properly be charged to our national defense program.

ALTERNATIVE METHODS FOR PROVIDING ADDITIONAL INCOME IN S. 1702

Additional income can be provided to growers by requiring that diversion payments be made on all diversion below the 55-million-acre minimum. For example, assuming national acreage allotments remain at the 47.8-million-acre figure which is the tentative figure already set by the Secretary of Agriculture for 1966. This indicates an acreage reduction of 7.2 million acres and if payments are set at 50 percent of price supports on normal production this would provide \$115 million additional income to growers. That is one alternative to the one that we were just discussing on export certificates.

Another possible alternative would be to provide that a minimum of 600 million bushels be certificated at full parity. The additional 100 million bushels would be financed by the Treasury as a direct payment, and would improve farm income by \$125 million. In either of these cases the cost of the 1966 program would be about the same as the 1964-65 wheat program which did make a substantial reduction in program costs (\$250 million).

We hope this committee feels that wheat farmers deserve an income equal to 1962 levels. We are all aware of the sharp income improvements all other segments of our economy have enjoyed since 1962. We are working to get wheat income levels up to within 3 years of other segments of our economy.

ONE HUNDRED PERCENT OF PARITY ON DOMESTIC CONSUMPTION

The National Association of Wheat Growers considers the 100 percent of parity on domestic consumption the single most important feature of this legislation. As you know our association has been advocating passage of this type legislation for 15 years. We know that your committee has looked with favor on a program of this type because it does reduce costs and provides additional income to producers in the marketplace.

I am sure this committee is aware that many powerful interests have joined together with only one purpose in mind—to defeat the 100 percent of parity for domestic consumption. Only recently this group led by a number of our largest bakery firms issued a press release in which they charged, among other things, that passage of this bill now before the House and Senate Agricultural Committees would result in a “tax of 2 cents on a 1-pound loaf of bread.”

Mr. Chairman, I did have these bags of wheat that I passed around. These were made by Nebraska Wheat Growers Association out in Nebraska, and very graphically show and explain the amount of wheat that goes into a loaf of bread.

Mr. Chairman, we all know that back in 1947 when the farmer was getting \$2.75 for a bushel of wheat the farmer's share of that loaf of bread was 2.7 cents. Now, today, the farmer is getting an average of about \$1.75 a bushel for his wheat and that pound loaf of bread brings the farmer the same 2.7 cents. We know, too, that in 1947 a 1-pound loaf of bread retailed for 12.7 cents, and today it retails for 20.7 cents while the farmer's price has dropped by \$1 a bushel. In fact, Mr. Chairman, if the farmer's price for his wheat had increased at the same rate since 1947 as marketing spreads have he would now be getting \$3.87 per bushel for his wheat and the consumer would be paying 24.4 cents for that same 1-pound loaf of bread.

USDA studies indicate that sixty-eight 1-pound loaves of bread are made from a bushel of wheat. This means that if wheat for domestic consumption is increased to full parity the farm value of the wheat in a loaf of bread would increase by about seven-tenths of a cent. Further USDA studies indicate if we add all other costs in proportion such as route salesmen commissions, markup margins, and all other necessary costs, this total would amount to only twenty-four one-hundredths of a cent. Thus the total cost would still be just a little over nine-tenths of a cent.

Yet our bakery friends are claiming the price of bread would be increased by 2 cents. In other words, these corporations are saying if a million or more farmers are to receive seven-tenths of a cent and all other costs bring the total to ninety-four one-hundredths of a cent these bakery firms and processors want the industry to take at least twice as much from each loaf of bread. Mr. Chairman, the facts seem to indicate they have in mind getting their hands in the pockets of consumers to the tune of 1 cent per loaf of bread and charging the bill to wheat-growers. We regret very much that it has become necessary to include a statement of this type in our testimony.

In conclusion, Mr. Chairman, the National Association of Wheat Growers strongly urges your committee to incorporate the recommendations we have made in S. 1702.

They will result in: Improving farm income equal to 1962 levels (about \$2.5 billion); provide additional flexibility in the program; simplify it especially at the county level; encourage participation up to 90 to 95 percent (1965 program 85 percent) thus reducing the cost; assure farmers of a long-range program which will facilitate long-range farm planning; provide additional incentive for low-cost acreage diversion up to 25 percent of the allotment; allow wheat farmers to get a greater share of their income from the marketplace; encourage increased utilization of wheat and provide income for older farmers to retire or partially retire, and still live on their farms.

COSTS OF NAWG'S RECOMMENDATIONS

May we again point out wheat program costs in the 1964-65 program were reduced \$250 million; acceptance of our recommendations would make a further reduction in program cost of about \$30 to \$40 million; total program costs excluding Public Law 480 and food for peace would be only \$150 million.

Mr. Chairman, on February 4, 1965, the President delivered to the Congress a special agricultural message. He said:

The farm people of this Nation have made and are continuing to make a lasting contribution to our national prosperity. As a matter of simple justice they should share equitably in this prosperity.

Mr. Chairman, if your committee will incorporate into the wheat bill the improved income features we have suggested it will, in our judgment, take one long step toward achieving this simple justice for the wheat farmer.

The National Association of Wheat Growers appreciates this opportunity to present our views.

The CHAIRMAN. Thank you. Any further questions?

Mr. Meeker, did you say you wanted to make an additional statement?

Mr. MEEKER. I have a short statement by the Kansas Association.

Mr. HORNING. This is a State organization. Mr. Meeker is presenting it for the National Association of Wheat Growers.

STATEMENT OF GEORGE W. MEEKER, PRESIDENT, KANSAS ASSOCIATION OF WHEAT GROWERS, GARDEN CITY, KANS.

Mr. MEEKER. Mr. Chairman and members of the committee, my name is George W. Meeker, and I am president of the Kansas Asso-

ciation of Wheat Growers, representing about 40,000 wheat producer members. My home is at Garden City, Kans.

If I may digress here for a moment, recently we were declared a drought disaster area in Garden City and, unfortunately, we are now experiencing a flood disaster, but we are overcoming it.

Senator JORDAN of North Carolina. Is any of your wheat actually with water?

Mr. MEEKER. No; just along the river bottom. There is a considerable wheat loss.

Senator JORDAN of North Carolina. Along the Arkansas River?

Mr. MEEKER. Yes.

The CHAIRMAN. You might get it both ways.

Mr. MEEKER. Gentlemen, I can appreciate your situation and your position here. I am also a member of the State Legislature in the State of Kansas.

Kansas Association of Wheat Growers appreciates this opportunity to present our views for improved wheat legislation.

Wheat producers are keenly aware of the concern which has been shown by this committee and by Members of the Senate in national programs for wheat affecting their crop and their income. As a Kansan, I would especially like to express our appreciation for the action of our Senators Frank Carlson and James B. Pearson in supporting the passage of wheat legislation last year, which set the pattern for the legislation now pending.

The Kansas Association of Wheat Growers for many years has examined wheat legislation in the light of the concept originally called the domestic parity plan for wheat. This plan treated wheat for domestic consumption and export separately, based on bushels of wheat marketed—since wheat is used in bushels and not acres—and worked toward elimination of surpluses of stored wheat and the gradual withdrawal of governmental intervention in farming.

The wheat producer, like every farmer, dreams of the day when he can plan his farming in suit himself, free of outside controls except market demand—just as the American taxpayer—and we must remember the farmer is also a taxpayer—dreams of the day when he will be free of the cost of Government programs for agriculture.

The goal of the domestic parity plan for wheat, much of which is embodied in the legislation about which we are talking, is the fulfillment of these dreams.

First, let me say that while Kansas wheat growers believe that the pending legislation contains the proper mechanics for an effective wheat program, we are concerned that income levels will be too low.

We believe that 100 percent of parity would be received by the wheat producer for wheat used domestically for food.

Senator Jordan of Idaho recently pointed out the \$300 million drop in farm income in 1964—that farm prices are at the lowest percentage of parity in 25 years—and that farm debt rose nearly 50 percent, to a record high, in the last 4 years.

Anything less than parity means, simply, that the American farmer is subsidizing the rest of the Nation at the dinner table, and we do not think we are being unreasonable to ask the American consumer to pay a fair price for what he buys from the American farmer—especially, since some groups object to the cost of maintaining programs which benefit the farmer.

The Kansas wheat growers also urge that farmer income which has been derived from the export certificates be maintained through land diversion payment or some other provision of the legislation.

Second, we recommend and urgently request a 4- or 5-year program instead of another 2-year program.

Agricultural production cannot be stopped or started at any point anyone may wish to stop or start. There are seasons of planning, of seedbed preparation, of planting, of growing, and of harvesting. And there are similar seasons of delivery, storage, transportation, and merchandising of products to be processed and delivered to the consumer market. And unless a program is worked out so that the wheat farmer can make his plans on a longer range basis, we will continue to have dissatisfaction and confusion not only among wheat producers, but also among all the other people who have anything to do with this product.

Third, Kansas wheat growers have studied the proposal to increase the release price of CCC stocks. We have come to the conclusion that we prefer to retain this provision in its present form as an administrative function. We have confidence in the ability of the Secretary of Agriculture to carry out the intentions of Congress.

Fourth, we are opposed to title VI—transfer and sale of allotments, specifically and especially as it pertains to wheat. We believe that such a provision could lead to further complication of farm programs on both the production and administrative levels as well as possible creation of new social and economic problems.

Fifth, we should like to have incorporated in the legislation provisions or mechanics which would guarantee that a farmer would not have to leave more than half of his cropland idle to meet program requirements for full participation.

The CHAIRMAN. By that you mean on diverted acres you would want——

Mr. MEEKER. On this point, there are still some areas that, to receive the benefits of the programs, still have to leave idle over half of their land. Possibly this adjustment could be made by making a reduction of normal and conserving acres in order to allow crop reduction on half of the land. This is especially of interest in summer fallow areas, and only the areas that have any problem.

The CHAIRMAN. That is where you would use it, in summer fallow?

Mr. MEEKER. I think this would be the only area that would have any problem.

The CHAIRMAN. What about the diversion? Would you ask that that be increased?

Mr. MEEKER. Not necessarily.

The CHAIRMAN. Now the amount of your allotment you may voluntarily divert for compensation is 20 percent, is it not?

Mr. MEEKER. Twenty percent. That is 20 percent on feed grain.

The CHAIRMAN. What is the amount of acreage you are now required to divert to qualify for certificates?

Mr. MEEKER. 11.1 percent. There is no pay on the 11.1 percent, no diversion payment.

This is one of the suggestions we thought you possibly could carry our income feature from our export certificates if this could be done, if you do not keep it on export certificates, to allow this amount of

money to be applied to maintain farmer income by applying it possibly to diversion payment on this 11.1 or even increasing it on additional acreage.

The CHAIRMAN. On this 11.1—11-plus percent, how much diversion payment would you suggest, 50 percent of normal production?

Mr. MEEKER. Yes.

The CHAIRMAN. And then any increase over and above that would be left to the Secretary?

Mr. MEEKER. That would be correct, whatever it might take to maintain a reasonable farm income.

The CHAIRMAN. It will take a lot in some areas.

Senator YOUNG of North Dakota. Mr. Chairman, I would like to ask this question of all three of the witnesses. I plan to offer the bill I introduced along with other Senators as a substitute for the administration wheat plan. This bill would raise the price a farmer is assured on his normal production to \$2 per bushel. The basic support price would be 50 percent of parity or the 3-year average of the world price, whichever is the higher. The difference between that and the \$2 a bushel to be made up by production payments from the Commodity Credit Corporation. I don't know what this committee will do if I offer this bill as an amendment. They might reject it. However, if they approved it, would you be happy or sad? I would like to ask the question of all three of you.

Mr. HORNING. As a farmer, I certainly would not object.

The CHAIRMAN. You mean \$2 a bushel for all you produce?

Mr. HORNING. Normal production.

The CHAIRMAN. How many acres?

Senator YOUNG of North Dakota. The farmer would be assured \$2 a bushel only on his normal production, not on all he produced.

The CHAIRMAN. How many acres, allotted acres?

Mr. HORNING. Allotted acres.

The CHAIRMAN. That would be 49½ million acres minimum. You would want \$2 on all of that?

Senator YOUNG of North Dakota. The farmer would be assured \$2 a bushel on his normal production on his allotted acres.

Mr. HORNING. I think the real problem is the difference—is on the export part of it. I have not discussed this one with you, Senator. If you get the appropriation to make up that difference on the export portion, it actually would take a subsidy to balance that off.

Senator YOUNG of North Dakota. What do you mean export subsidy?

Mr. HORNING. Out of 12 bushels of wheat I raise, for example, about 5 are used in this country and 7 have to be exported to go to some other area.

The CHAIRMAN. All right.

Senator YOUNG of North Dakota. The minimum price support would be about the same as under the administration bill. It is 50 percent of parity or the 3-year average of the world price, whichever is higher.

Mr. HORNING. \$1.25.

The CHAIRMAN. Or the world price, whichever is the higher. There would not be an export subsidy, but a payment to producers.

Mr. HORNING. But what would that sell for?

The CHAIRMAN. There would be bound to be some subsidy paid either to the exporter or the producer, as I see it, if the producer is to receive \$2—unless you would want to sell it above world prices.

If it were priced above world prices, where would it go?

Senator YOUNG of North Dakota. It would have to drop the world prices because we export over half of our production. The cash price could hardly go above 50 percent of parity or the world price.

The CHAIRMAN. Yes, but you would want a payment of \$2 for that wheat?

Mr. HORNING. Well, the difference between—if the world price was \$1.35 a bushel, approximately what it is now, then he gets 70 cents a bushel for his normal production.

The CHAIRMAN. I know, but he would get that from the Government.

Senator YOUNG of North Dakota. Yes.

The CHAIRMAN. That is what he is talking about. It would be a subsidy, but paid to the producer rather than the exporter.

Mr. HORNING. Yes.

Senator YOUNG of North Dakota. Most of this money would come from the sale of wheat certificates. There would be some balance that would be paid out of CCC now the same as we do with corn. We pay 18 cents a bushel to the corn producers.

Mr. MEEKER. Mr. Chairman, as I see this, this would increase the cost of the program.

The CHAIRMAN. Oh, yes, a good deal.

Mr. MEEKER. And we do have budgetary limitations. Possibly something along the present application might—

Senator YOUNG of North Dakota. I do not happen to be a Democrat so I am not bound by that.

Mr. MEEKER. I strictly think from the cost angle if you have to go to 70 cents on the export wheat, however, this would be an additional cost to the Government.

Senator YOUNG of North Dakota. I have come to this conclusion. If you are going to have a program that is of so little benefit to the farmer, you might as well not have any program at all. The farmer might be better off not to have any program. You could have all of these price support programs you want. So far as I am concerned, I will have no part of a low price support program.

Mr. HORNING. I do not think you would find any of us in disagreement with the \$2.

Senator YOUNG of North Dakota. I know the problem you have. I am just trying to find out whether you would be sad if it were adopted.

The CHAIRMAN. They would be happy. It would make them smile.

Mr. KENDRICK. Senator, I have never had any mail from a farmer yet who would object to getting \$2 for his wheat in normal production. I would say this, though, Senator, if we could achieve the average of \$2 per bushel income for the farmer on normal production, and do it by paying him full parity on domestic consumption, and by export certificate or by diversion payments to get the average up to \$2—

Senator YOUNG of North Dakota. Who pays for the export certificate? The CCC.

Mr. KENDRICK. That is true. But if we could achieve that—I would like to point out one place where it is not quite the same, with your permission, sir. For example, if he got \$2.50 or \$2.55 on 45 percent of his domestic, and then he got on 30 or 40 percent of his exports or by diversion payments he got an average of \$2 per bushel on normal production, then he is only getting payments on 75 to 80 percent of his production, and I know, that you know, and all these wheat men know, that the production of wheat is not going down, it is going to go up. We could get a farmer to divert the 25 percent of his allotment that he is growing wheat on for \$1.25 easier than if he got \$2 per bushel on his normal production. That is the only point I am making.

Senator YOUNG of North Dakota. You will recall that years ago we had this problem with the Secretary of Agriculture and Congress and some other people. We finally compromised on \$2 per bushel price support on wheat. This was about 10 years ago. The cost of farm operations have gone up sharply since then. The administration bill, I think, would give the farmer a blended price of about \$1.82 a bushel or roughly that. If the farmer were able to get \$2 a bushel it would be 18 cents a bushel more, and this might make the difference between survival and going broke for a great many.

Mr. HORNING. I would like to make just one statement. On my wheat crop this past year I took total receipts, total acres and divided it, and it averaged \$1.83 plus.

Senator YOUNG of North Dakota. You are taking into account the price you got in the cash market?

Mr. HORNING. Everything I got for wheat.

Senator YOUNG of North Dakota. Your average wheat price amounted to how much?

Mr. HORNING. \$1.83 plus.

The CHAIRMAN. How much of that was Government money?

Mr. HORNING. The 50 cents, the 50 cents per bushel on 45 percent of normal production, and—70, wasn't it?

Mr. KENDRICK. That wasn't Government money, the 70 cents.

The CHAIRMAN. Government payments is what I meant.

Mr. HORNING. The Government payment is very small because it was just—I do not have any diversion payment on wheat though.

Mr. KENDRICK. Actually, all he had is——

Mr. HORNING. Just the export certificate, which was very, very small.

Mr. YOUNG of North Dakota. You had your wheat certificate payments, didn't you?

Mr. HORNING. Yes; but that came from the marketplace.

The CHAIRMAN. I know, but that is Government money though. It comes out of CCC stocks. You do not buy that—that is money put up before by the Government.

Mr. HORNING. To be replenished by the market through the selling of the certificates.

The CHAIRMAN. Sure. But, as I said, these certificates were sold by the Government to provide you with cash.

Mr. HORNING. Mr. Chairman, I did not calculate this one. I should have.

The CHAIRMAN. It would be interesting to find out what portion of the \$1.83 you received came from Government funds, either directly or indirectly.

Mr. HORNING. That is right. I think it would calculate out about 50 cents.

The CHAIRMAN. Fifty cents?

Mr. HORNING. Yes, sir.

The CHAIRMAN. In other words, a little over 30 percent—this would come from Government.

Mr. HORNING. Yes.

The CHAIRMAN. All right.

Mr. MEEKER. I think just a little further with respect to the answer of what would make the farmer happy would be to get \$2 a bushel on all he could raise.

Sixth, we favor an escalator clause of 100 percent of parity that would keep the price that farmers receive for their production in line with the income of other segments of our economy, without having to enact new legislation periodically to correct the disparity, as provided in bill H.R. 6335 by Congressman Graham Purcell.

As a matter of fact, the American farmer—and I speak specifically of the Kansas wheat farmer—finds himself in a nearly unbearable cost-price squeeze. We ask for better income provisions in wheat programs because a farmer's income cannot be cut and his expenses increased without driving people off the farm. Farm families will be added to the employment rolls in the cities. Fewer customers and clients in the country will depress the business and professional firms. Dealers will be forced to sell on smaller margins, and banks will have to limit credit. All this will create poverty in rural America. Rural poverty will be reflected back to the industrial areas.

Kansas wheat farmers only ask for a fair and equitable program, and that those who benefit from the farmer's efficiency and production pay their own way. We do not believe this Nation will benefit either in the short run or the long view if farm prices are depressed. We believe that our Nation will be strengthened if the disparity of income between farms and other segments of our economy is corrected.

This committee has been very sensitive to the needs of wheat producers, as is shown by the very valuable overseeing privilege which was placed in the present law, as well as the substitution clause. These have provided much-needed flexibility for the producer in planning his farming operations.

We believe that if the features we have suggested are incorporated into the administration bill: 100 percent of parity for wheat used domestically for food; maintain producer income formerly provided through the export certificate; set up the program for 4 or 5 years instead of 2; retain provisions for the release price of CCC stocks in their present form; eliminate transfer and sale of allotments as they pertain to wheat; and establish an escalator clause at 100 percent of parity—it will give a program which is fair and equitable to wheat producers, millers, bakers, and consumers.

We appreciate this opportunity to bring to you our views and suggestions on legislation you are considering, which will deeply affect the Kansas wheat farmer.

Thank you.

The CHAIRMAN. We are glad to have had you.

Mr. MEEKER. Thank you.

Senator YOUNG of North Dakota. If I understood Secretary Freeman correctly the other day when he testified here, he said he did not intend to use the provision whereby farmers would receive export certificates. You can put it in the bill if you want to, but he does not intend to use it.

Mr. MEEKER. I think it is in the bill now, isn't it now, from 0 to 100?

Senator YOUNG of North Dakota. That is right, it is in the administration bill. But either way if he puts this in a cost that is paid by the Government.

Mr. MEEKER. Correct. I was referring to the income that has been derived, that might be derived, through another source, they would still be Government funds, however.

Senator YOUNG of North Dakota. It would be a whole lot simpler to use the approach I have suggested.

The CHAIRMAN. Well, if necessary, of course, you could make direct payments as you do for corn on that portion of wheat that is exported.

Senator YOUNG of North Dakota. The export certificates amount to the same thing.

The CHAIRMAN. I see. But it could be done that way. I would rather leave the market to find its own level.

Senator YOUNG of North Dakota. I would, too.

Mr. HORNING. Yes.

The CHAIRMAN. That is at world prices.

Thank you very much.

TRANSFER OF ALLOTMENTS

Senator COOPER. May I ask one question, Mr. Chairman? I was not able to be here earlier today because I was testifying before another committee, but what are your reasons for opposing the transfer and sale of allotments? I have raised questions about on that, too, and I would like to know what your reasons are.

Mr. MEEKER. Well, the thing here we see, just taking our States, for instance, we can foresee where it could increase the wheat production problem, for one thing. They might buy an allotment from the western part of the area and transfer it to the eastern part of the State where there is additional rainfall, and they could actually produce more bushels of wheat annually than they do at the present time.

Also in areas of the western part of our State this would very likely cause some other disasters from the standpoint that wheat is about the only crop that is really adaptable to that area, like it is through much of the Great Plains areas that Senator Young is familiar with.

Senator YOUNG of North Dakota. I think he makes a good case. This certainly would be true of Kansas. Your better quality wheat is produced in the western part of the State where your yields are lower.

Mr. MEEKER. Right.

Senator YOUNG of North Dakota. If you allowed transferred allotments to the eastern Kansas farmers, you would have a higher yield per acre and a poorer quality wheat. There are the smaller farmers, too.

The CHAIRMAN. I presume such conditions would prevail in some of the counties there, too, wouldn't they?

Mr. MEEKER. Yes; to a certain extent. But it would not be nearly as great.

The CHAIRMAN. I know.

Mr. MEEKER. But there would not be nearly a variation. It would be quite small in the county.

Mr. HORNING. One other point I would like to make on this sale and transfer of allotments. Our farmers fear very much if you separate the allotments and the land you get an inequity here for future years. It will be real difficult to correct.

Mr. MEEKER. There is one other thing in this regard, too. Possibly if a person might be in a financial bind, and at the moment he might see fit to sell this allotment, and it might become very regrettable over a period of time.

Mr. KENDRICK. You could visualize over a few years the number of those accumulating and coming down here and saying, we need allotments. We haven't any allotments.

The CHAIRMAN. Here I notice your production is estimated at 1,283 million bushels. That is on around 49 million acres. You are getting too efficient.

Mr. MEEKER. That may be our problem or one of them.

The CHAIRMAN. That is what I think. [Laughter.]

Mr. MEEKER. Thank you.

The CHAIRMAN. Glad to have had you, sir.

Mr. Purdy.

STATEMENT OF C. LOWELL PURDY, COMMISSIONER OF AGRICULTURE OF THE STATE OF MONTANA, HELENA, MONT.

Mr. PURDY. Mr. Chairman, Senator Ellender, and members of the committee, I realize that time is getting late, and I will try to cut my testimony down somewhat, but I want to express my thanks for the opportunity to appear before you today.

WHEAT

I am C. Lowell Purdy, Commissioner of Agriculture for the State of Montana, a State where the production of high-quality wheat and beef is our greatest source of income. Gov. Tim Babcock has requested that I make this presentation as he and our agricultural and related interests are gravely concerned about the present state of our agricultural economy.

My testimony is presented to reflect the position of Montana farmers on this important legislation. I personally have been a producer of high-quality wheat all my adult life and am at the present time actively engaged in that pursuit. Since I am a bona fide "dirt farmer" I feel I have some background from which to talk on this most important subject.

Frankly, we in Montana are gravely concerned about the turn of events in agriculture and the statistics conclusively show that, with greater production and more complex and unworkable programs, we are continually losing ground. This situation, if not corrected, will, sooner than we think, spell doom not only for agriculture, but all related industry as well.

I sincerely appreciate the complexities and almost bewildering position your committee finds itself in attempting to formulate a farm program that will satisfactorily provide for some sort of stabilization for the many varied agricultural producers in this country.

Notwithstanding the fact that only 7 or 8 percent of our population is actually engaged in production, it is necessary to remember that 40 percent of the gainfully employed people of this country owe their livelihood to agriculture.

Further, agriculture is far and away the greatest market for the sale of much of our industrial production, including such items as steel, rubber, and petroleum, to mention just a few. Admittedly, then, agriculture is our most basic industry. We never want to forget that. Our highly industrial society is now demanding and receiving an abundant supply of wholesome nutritious food at less than 20 percent of their take-home pay.

I do not have to tell you that agriculture simply is not sharing any of the so-called prosperity boom enjoyed by the rest of the economy. There has been far too much publicity depicting the farmer as overly subsidized and looking for a "handout" and I submit that under the present structure the farmer is actually subsidizing the rest of the economy.

I further submit that basically the farmer is the most individualistic of all citizens. In fact, this is probably one of the greatest difficulties facing your committee and difficult as it is, this trait in the farmer is most commendable in my book and is in fact one of the foundation stones that has made this country the greatest in history. I might say, at this point, that I do not wish to criticize just for the sake of criticizing and as complex and difficult as the farm problem is with its many varied interests, it is necessary for the complex groups to in some measure compromise some of their positions and come up with a sane answer.

As indicated by the 1963 wheat referendum, the wheat farmers, to their everlasting credit, expressed their desire by ballot, to find their way out of the woods and gradually produce for the marketplace, which, ultimately, will have to be the permanent solution. This is not to say they advocated dispensing with all commodity programs, as under the present national economic pattern these programs are most necessary during a transition period, at least.

What happened, of course, is that an even more highly controlled law was passed by the Congress, and, I might add, over the opposition of over 70 percent of the Congressmen from wheat States. It is true that the ultimate result of the "no" vote on the referendum has been merely a further loss of income for wheat farmers and stricter controls than even the legislation originally provided.

This was not the will of the majority of wheat farmers or wheat Congressmen, however. There were some minor improvements made in the program this year, such as the substitution clause of feed grain and wheat acres, but in the main, the program has become so utterly confusing that 99 percent of the farmers and even the people administering the law do not know which way to turn. I do not believe the present program could be termed "Operation Simplicity."

I might say at this point that no matter what type of legislation is finally adopted, as these other men have said, I would hope that it

will provide a program of long enough duration to allow our farmers and ranchers to make some concrete plans to comply and plan their operations. The present program is so confusing and unstable that a farmer cannot plant from one day to the next.

I know that in the past several months considerable testimony has been received from the wheat States depicting the present deplorable situation of agriculture and the adverse effect it is having on the entire economic structure, especially in our wheat-producing States.

I am sure you gentlemen have access to this testimony and statistics, so I will not belabor you with them unnecessarily. The farmers of this country are not now asking for charity and never have, and I would like to state, farm criticism has been blown out of all proportion and agriculture has been used as a scapegoat for many of the unrealistic economic panaceas that have developed and if agriculture is going to be expected to continually subsidize and underwrite even our foreign policy and suffer the loss of income, gentlemen, history will repeat itself as always and we will establish a base for a serious national depression. There is no question but what we have a legislated economy and though I personally think this is not good, I feel that it is nonetheless true and that agriculture simply cannot survive in the best interests of the country as a whole in its present straits.

I call your attention to remarks by one of your own committee, Hon. Senator George Aiken, of Vermont, entered in the Congressional Record of January 12, 1965, wherein he brought out more vividly than can I, the total unfairness of the charging of unrelated costs to the agricultural budget. In fact, I would like to see his remarks on that day be made required reading for everyone.

If such a requirement could be made I am sure everyone, especially the people of the large urban areas of this great country, would better understand true economics and the relationship and interdependency between urban and rural citizens. Let's not kid ourselves, more of the agricultural subsidies have benefited consumers and stockholders than farmers. In fact, over one-half of the approximately \$8 billion agricultural budget should rightly be charged to other than agriculture. Gentlemen, I feel it is time some of these situations were put in their proper perspective.

Specifically as to the present Montana economy, I would like to point out the fact that with increased production and notwithstanding the fact that the U.S. Department of Agriculture informs us that agricultural net income is up, that the cash receipts in Montana in 1964 from crops and livestock were down approximately \$26.6 million from 1963, and the figures include Government payments of \$47.3 million, an increase of 79 percent from 1963.

Last year almost 11 percent of farm income in Montana came from Government payments. In a State whose economy is based largely on farm income, it is obvious this loss was felt all up and down the line. Quoting from the Montana Crop and Livestock Reporting Service, a statistical reporting service of the U.S. Department of Agriculture and the Montana Department of Agriculture, farm operators in Montana wound up with an average realized net income of \$3,255 per farm in 1964, down 24 percent from 1963.

If this trend continues, we will certainly wind up with a "Montana Appalachia" and we are not for that. I might add this down trend occurred in spite of the fact that we produced 1 million bushels more wheat in 1964 than in 1963. The parity ratio is now at 75 percent, the lowest since 1934, and yet we have the U.S. Department of Agriculture placing ceilings on prices. How can you increase farm income that way? What would organized labor say if they were treated that way?

Particularly disturbing to me and to our people engaged in agriculture and agri-business, is the present debt structure of our farmers. In 1961 U.S. farmers were indebted \$1.97 for every dollar of realized net income, but this year, after 4 years of current farm programs, the farmers will owe a whopping \$2.86 for every income dollar, which is shocking when you consider the farmer owed only about \$2.30 per income dollar in 1929, the eve of the great depression.

What it boils down to is simply this, that the farmer has been forced to live off his depreciation schedule the past several years and now is to the point where he is mortgaging the very equity in his land. Gentlemen, this condition does not foretell trouble, it is trouble. The late President Kennedy said he did not consider a 3 percent a year rise in price inflationary and when this is compounded over a 10-year period, it totals to an overall rise of over 30 percent in the past 10 years. Compare this trend with the decrease in farm income in that period and statistics show that less than 400,000 farmers earned a rate of 5 percent on their investment and that between 2 and 3 million farmers are actually earning less than the national hourly wage.

If this situation continues as it is at an accelerated rate, what will happen when property taxes cannot be paid? What will happen to our rural communities? While I am on this point, may I quote from the official Montana Crop and Livestock Reporting Service of May 15, 1965, which states—

the May 15, 1965, index of prices received for all crops was 68 percent of the 1947-49 average.

As you well know, the 1947-49 base was one of the, I believe, three periods when agricultural income was in balance with other parts of the economy. Any point where such balance has been as badly disrupted has always precipitated serious trouble. I am most happy to find that many of our business organizations are beginning to show a real concern in the agricultural problems and I quote from a publication from the Montana Chamber of Commerce, when they state that—

it is the feeling of many that the problems of agriculture have not been getting all the attention they should. Certainly they should have the highest level consideration.

It is about time we place agriculture in its proper place, and I don't mean under the rug.

With the change in the population trends, it is certainly most difficult to get the proper communication between urban and rural citizens and help them understand their interdependence. The businessman, I am sure, can see his loss in the purchase of capital assets by farmers at the present time. The present inequitable situation briefly is very adversely affecting the economy of the State of Montana and whenever 12 farmers disappear, 1 rural business also disappears.

I am sure we all agree the American consumer is receiving an abundant supply of food for approximately 19 percent of his disposable income. We spend more for housing and homefurnishings than we do for food, and food costs in many countries still take more than one-half of people's earnings. This is a great tribute to the American farmer and a condition for which we should make no apologies.

Great Britain, which enjoys the next most favorable position in this regard, spends approximately 29.5 percent of its disposable income for food, and in Russia over 50 percent of disposable income is necessary to feed the household. In other words, our modern technical agriculture has progressed much faster in a relatively short period of time than have other parts of the American economy. In fact, if the American farmer was no more efficient than before World War II, the American consumer would be paying approximately \$17 billion more for farm products each year.

Now comes the most serious problem in the dilemma. The question always is: What is the answer that will insure adequate agricultural income for the present when we all know the world is constantly going to need more food? Most everyone agrees that our so-called surplus is temporary.

The present program as well as past programs have been tailored on a national basis, and I realize it is most difficult to effect a program that will be satisfactory to all of the many divergent producers of agricultural products. Even the case of wheat and feed grains, the subject of present deliberations, is most difficult. We have at least five major types of wheat in this country, some of which are in surplus on occasion and some of which are often in short supply.

I was in the great State of Texas last year and noted by a press release that northern Texas agriculture had changed since World War II from a cotton to a wheat economy. Now this is a free country, and I hope it always remains such, but these programs however well intended they may have been, have actually fostered a serious dislocation in wheat production and decreased quality and increased troublesome surpluses.

We can and would like to raise a quality product in Montana and work toward achieving parity in the marketplace. We cannot however, substitute cotton for wheat and frankly my cotton production on my Montana wheat farm has not been too good. We in Montana producing a high quality wheat, seldom in surplus, always much in demand by the milling trade, feel that we have been discriminated against in the present program as well as past programs. I would like to emphasize that we have constantly seen an erosion of our acreage base, especially since 1954. The programs have tended to shift the production of wheat out of the historical wheat producing areas, into other areas, who fortunately for them, can raise alternate crops.

Any program that is finally adopted, must, I feel, give greater emphasis to the quality factor, not only pricewise but acreagewise as well. I recently wrote the Secretary when I found the loan schedule for the 1965 crop was seriously disrupted by the dropping of the sedimentation test in establishing loan values on the 1965 wheat crop and the net effect will be to further penalize the producers of high quality wheat and cut their income still further. If penalizing the product that is in demand and encouraging the production of surplus inferior grain is

good business, I fail to see it. I might elaborate on it a little bit. Probably you are pretty familiar with the sedimentation test. I am not arguing whether it was good or bad, but it was put in by the Secretary of the U.S. Department of Agriculture 3 years ago, and I fought it very vehemently as to the method.

We have one of the finest grain laboratories in the United States, totally self-supporting, and the law says the laboratory has to pay its way.

So when a sedimentation test was put in I tried to get it through the State laboratories. We test the protein and we test the grades. It was just logical that we should also perform the sedimentation tests on CCC loan wheat.

But the U.S. Department of Agriculture insisted on putting in two laboratories in Montana. They have now scuttled the program and are not going to use the sedimentation, but the main point is in this year's crop they are going to determine the discount from or the premium to the loan value by not using sedimentation and, as you know, there is a close correlation between sedimentation and protein and, as I say, the net effect will be to penalize the high quality grain, the kind that is not in the surplus.

That is why I am a little skittish about giving too much power to the administrator, no matter who he is.

This sort of law administration gravely concerns our wheat farmers who have tried at all times to cooperate in helping to find a solution to the problem on a national basis. After all, we as farmers, farm the land, not programs, and it would make little difference if we had 1,000 percent of parity and we had no land to farm.

Specifically we have but two sources from which to obtain increased income for farmers, either from a direct payment from the Treasury or from the consumer. As I believe I have already pointed out, food costs are the most reasonable part of the consumer's budget and since the production costs of the farmer are increasing at an accelerated rate because of price increases on everything he buys, it is not illogical to assume that consumers should be willing to pay, and I believe are willing to pay, additional food costs if they are sure that the farmer will obtain this increased income.

I personally feel that the present programs are going 180 degrees in the wrong direction and that a more sensible approach would be a gradual shifting to the market place for parity of income. However, under the present legislated economy, this is not possible and an abrupt discontinuation of commodity programs without at least transitory supports would have serious repercussions, not only to agriculture, but the entire economy as a whole. I would, at this time, like to make several general recommendations for the present legislation.

CCC RESALE PRICE

1. Though I know, as has been admitted by the Secretary, that the Commodity Credit selling price for grain at 105 percent of the loan value is the key to totally controlling agriculture and handling the surplus, it is most imperative that this ceiling be raised to at least 120 percent in order to let the free market work to at least some degree. Commodity Credit was originally invoked to facilitate the orderly

marketing of grain and place a floor on prices and until recently was beneficial to the producer, grain merchant, and consumer as well.

The present program is actually placing a ceiling on prices and is disturbing the market prices to the advantage of other groups and to the detriment of producers and the private grain trade. I sincerely hope this recommendation will be seriously considered.

There is one recommendation that I have not heard today and I would recommend the same at this time.

2. I would recommend that a substantial portion of present grain stocks be set aside in a permanent food reserve to insure the security of this Nation in the light of present world tensions and most importantly the costs of such a program should not be charged to the agriculture budget.

In cases of emergency, food is a most important necessity, and should a serious situation arise, agriculture would not just go on functioning as it has in times past. We are so highly mechanized that it would not be possible to just give the horses some more oats and keep on producing.

CROPLAND ADJUSTMENT

3. I feel there is considerable merit in a land retirement program where land would be taken out of production under stringent rules and the participant in the program would be paid and paid well for such land retirement, for the land will be needed in the future and I feel such costs are legitimate charges against the taxpayers of the country. I do, however, feel that a land retirement program coupled with acreage controls and unrealistic price support provisions would be hard to administer and control production. The people that were still operating should be given liberty to operate their land as they see fit and not be subjected to all of the "overseers" and the elimination of much of this type of supervision would be a considerable saving to the farmer and other taxpayers. Admittedly, this in itself would be a formidable problem.

WHEAT

4. As I previously indicated, additional provisions must be made in recognition of quality in the establishment of not only price, but acreage allotments as well.

Finally, I feel that the proposed legislation, even more than past programs, delegates too much power to the hands of the Secretary and this I feel is wrong whomever he may be. I think the requirements must be specifically spelled out in the law and not left to the whims of one man, a political appointee by necessity, besides.

The present legislation apparently provides for the raising of the parity on domestic certificates to 100 percent with the export certificate either eliminated or left to the discretion of the Secretary. No one will quarrel with the necessity of parity, but the controversy arises as to how it should be established. Admittedly we must be more aggressive in world trade to dispose of our excess wheat production. If the domestic certificates are raised to 100 percent and no provision to supplement the income lost from the expiration of export certificates, the farmer's income will not be changed to any great degree and we will be pretty much status quo.

One piece of legislation introduced by another distinguished member of your committee, the Honorable Milton R. Young, of North Dakota, would, I believe, provide for this additional income through increased diversion payments. I believe under the present bill this legislation has considerable merit. May I say that the ultimate aim must be full parity in the marketplace, but that under the present situation it is most imperative that farm income be raised. In order to bring agriculture at least somewhere close to income balance with other segments of the economy net farm income must be raised a minimum of \$5 billion.

I would like to make just a few comments on the Secretary's testimony here. I just do not understand where he gets his figure on this income because I think, as I have quoted you from the Montana statistics, it just does not add up.

I am not saying agricultural income, but as far as wheat producers, I cannot see any statistics that bear his statements out whatsoever.

I will admit under the present program surpluses have been reduced, but, man, at what a cost, and I do not think that our agriculture economy can stand too much more of that.

The CHAIRMAN. You refer to not only wheat but corn also?

Mr. PURDY. Right. I am talking on wheat and the feed grain bill chiefly, because that is what I am familiar with. I do not class myself as an expert on the other parts of it, and so I just do not think it is within my province, without further study, to comment on it.

But I would say this, Mr. Chairman, that is true. I heard the discussion today, something about these projected yields. I might just point out that it was up in Montana where they had considerable trouble here a few years ago on those normal yields. I question this projected yield. It might work out all right, I am not saying one way or the other, but I know that here several years ago when they were establishing the normal yields, they had a hard time doing it, and you had local committeemen out rating whether you were 105 percent, or a 95 percent farmer or a 120 percent farmer. There was a lot of hard feeling, and a lot of injustice in that.

In other words, you were rating the farmers, and my only anxiety about this change would be whether you would be getting that all over again. You would take it on a 1-year basis and you would get, I am afraid, into too much personality and give too much discretion to switch those things around.

After this normal yield has been established over a period of 3 or 5 or 10 years, I cannot see anything too difficult about it right now. That is my personal opinion.

Also I would say that would make a difference on your bonding requirement, on your overseeding at the present time, because if you put your wheat under a bond and overseed, I could stand corrected here, but I believe you have to bond it in twice the amount of your normal yield. In other words, that is just another penalty to force compliance into this voluntary program and, frankly, to anyone who is acquainted with the present program at all, there is nothing particularly voluntary about it. It is voluntary, but you had better be volunteering.

I was quite interested in one of the gentlemen's comments before me on the summer fallow acres. For instance, in Montana we have

all summer fallow operations. One of the difficulties in our situation up there is we cannot raise alternate profitable crops. We are raising a product that is in demand, very seldom in shortage and, therefore, all of these things tend to shift the production out of what we would call quality wheat, and I also am realistic enough to know that everyone feels they have got quality, too. Mr. Chairman, I know how these things are.

I agree with Senator Young who just left here, as far as this program is concerned, if we are going to have one with adequate income let's have a program, and if we are not going to have a program, let us forget it, one way or the other. This idea of slow strangulation I am not for.

Mr. Chairman, I certainly appreciate the courtesy extended by the members of this committee in allowing me to appear here today and testify on this very important legislation.

As a wheat farmer myself and a commissioner from a wheat State, I shall be most happy and, in fact, eager, to answer any questions that you might care to field me.

Thank you very much.

The CHAIRMAN. You are not for the program as it is written, then, are you?

Mr. PURDY. Pardon?

The CHAIRMAN. You do not seem to be for the program as provided in S. 1702?

Mr. PURDY. I would not say that I was totally against it, no; I would not say that, Senator. I think my contention is that under the present structure we are going to have to do something like that, and I think we have got to do the best with what we have for the time being. That is what I really think. I think whatever is done, whether it is wrong or right, it should be set up for a long enough period so that the farmer can make plans later than next week anyway.

The CHAIRMAN. Well, the cost of these programs has been of great moment here because the costs have been continuously increasing. As I said before, it is entirely possible that with the composition of the House of Representatives being made up of people from the cities, who might not understand the problem, we might have trouble to keep these programs up.

Mr. PURDY. I appreciate your thought there, Senator.

The CHAIRMAN. I wish you could get more unanimity on these programs so that we could do something. But when you get farm organizations, sitting where you are sitting, right ahead of you argue one way and another one another way—

Mr. PURDY. I realize that. They disturb me, I realize that. It is real hard to get the communication between your urban and rural citizens, and not because you gentlemen are in the political arena or anything else, but the majority of the people are urban citizens now, and it is real hard to get the communications, and I think we have to do the best we can. I do not want to be opposing something just to oppose it, and I sure appreciate your position, and any way I can help I will be glad to do it.

The CHAIRMAN. Any further questions? Thank you very much.

Mr. PURDY. Thank you.

Senator HOLLAND. I would like to ask two questions before you go.

Mr. PURDY. Yes, sir.

Senator HOLLAND. You are for the wool program that is in the bill?

Mr. PURDY. To be downright frank with you, as Montana commissioner I am not as familiar with the wool part as with the wheat. I believe the administration is proposing a sliding scale for wool payments. In other words, without being any expert, it looks to me like another situation where you are trying to even things out. You are putting the fellows solely in the wool business in the same position as some fellow making his living doing something else. To that part I would be against.

I think our present law would be better, to have that continuation, although I am not speaking as an expert.

Senator HOLLAND. Are you for the application of this law to the livestock and the meat-producing industry, for leaving the livestock uncontrolled?

Mr. PURDY. I think there is a little bit different situation there, Senator, and I do not believe the livestock people are interested in this type of program. I think that is true.

Senator HOLLAND. Then in at least two particulars you favor this legislation, leaving the livestock out, and you like the wool program being extended, although you think you may be against some single condition in the extension.

Mr. PURDY. Yes. I just want to say you question me a little bit out of my area, but I think that is generally right.

Senator HOLLAND. What about the feed grains? Did you testify on that before I came here?

Mr. PURDY. No; I did not testify on the feed grains except that it relates to the wheat program and, of course, the feed grains would be tied in with both wheat and livestock.

Senator HOLLAND. You understand, unfortunately, this is an omnibus bill covering a great many things.

Mr. PURDY. I understand that.

Senator HOLLAND. Your comments, at least what I heard, were related solely to the wheat program, and I thought, perhaps, coming from the State that you do, Montana, you have some feeling one way or the other on the wool program, some feeling one way or the other with reference to the inclusion or exclusion of livestock, some feeling one way or the other as to what should be done with reference to feed grain because, of course, wherever the livestock industry is, it is affected by feed grains. What is your feeling with reference to the feed grain provisions of the present pending bill?

Mr. PURDY. Well, directly in answer to your question, I might say that I think I expressed myself as far as the livestock industry is concerned, we would not want to be in the bill, and they do not want in the bill, and presently the livestock prices are 97 or 99 percent of the 1947-49 base. The only thing about the feed grain bill is this, as I say, in Montana we can either raise barley or we can raise wheat, and I think if you are going to go along with the wheat program and its modifications and its changes, you would have to go along with the feed grain in the same way.

Senator HOLLAND. That is all.

The CHAIRMAN. Any further questions? If not, thank you very much.

Senator COOPER. You approve the Department bill so far as paying the processor——

Mr. PURDY. Yes. I said I approve it to a degree. I approve it under the present setup with alterations that I mentioned there.

Senator COOPER. I know you mentioned the alterations.

The CHAIRMAN. Thank you, Mr. Purdy.

Mr. Mennel.

**STATEMENT OF DONALD M. MENNEL, CHAIRMAN, GRAIN AND
LEGISLATIVE COMMITTEE, NATIONAL SOFT WHEAT MILLERS
ASSOCIATION, FOSTORIA, OHIO**

Mr. MENNEL. Mr. Chairman and gentlemen, my name is Donald M. Mennel. I am president of the Mennel Milling Co., of Fostoria, Ohio, and I am here today as chairman of the Grain and Legislative Committee of the National Soft Wheat Millers' Association. I have with me Rondal M. Huffman, who is secretary and counsel of the National Soft Wheat Millers' Association. This association has membership companies representing approximately 80 percent of the total commercial Soft wheat milling production of the United States.

I want to thank you again for the opportunity to appear before you. Our association has appeared in the past, and we hope we have some new ideas to present to you today. We do appreciate the opportunity.

We believe we must first outline the problem as we see it. I might say this is slightly different than some of the outlines that I have seen presented today.

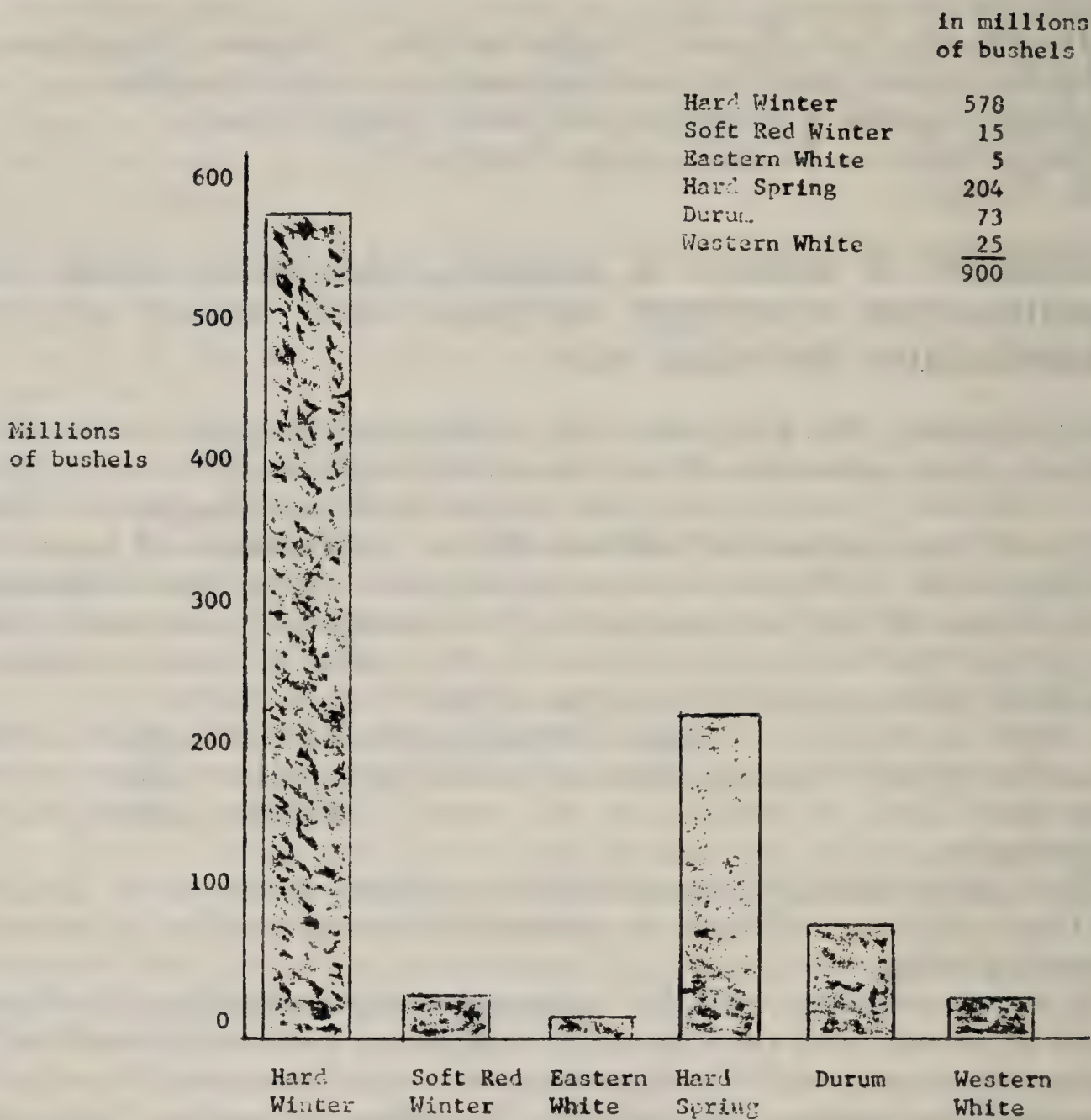
To us it is relatively simple—we are growing too much of the wrong kinds of wheat, and certain wheat producers are being benefited by Government programs disproportionately with the domestic and commercial export need of the Nation. We believe any wheat legislation must be arranged to reduce CCC ownership of wheat, both now and in the future; and we further believe this Nation must produce only sufficient quantities of each kind of wheat required for domestic usage, commercial export and necessary carryover.

We have a series of charts. Sources of information for all of these are the various wheat situation and other official documents issued by USDA, including distribution of varieties and other research studies. I haven't attempted to outline the sources of each of these on the chart. I think this chart 1 is self-explanatory, carryover Hard Winter wheat, Nebraska, Kansas, Oklahoma, and Texas basically. The other wheats are not in bad shape. Hard Spring has a fairly high carryover. But not unusually so.

(The document referred to follows:)

CHART I

WHEAT CARRYOVER BY KIND - 6-30-65 ESTIMATE



Senator COOPER. What are the sources? What States are the producers of the wheat? What State is the chief producer of Hard Spring?

Mr. MENNEL. Minnesota, North and South Dakota, Montana. I have later in the statement the major producers of each kind of wheat. This comes right from the wheat situation.

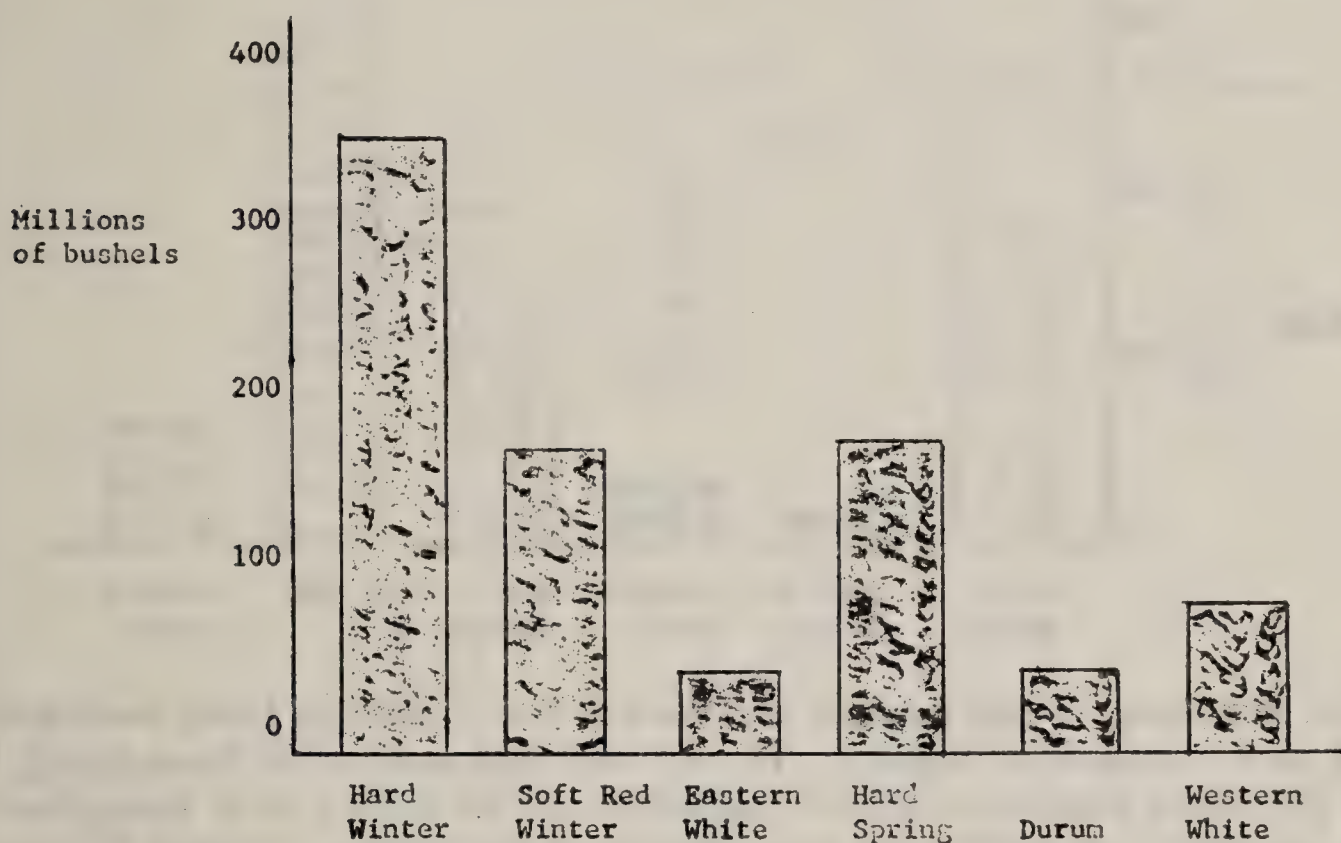
Chart 2 illustrates the historic, precertificate program, domestic disappearance and commercial export, which we will call total market demand.

(The document referred to follows:)

CHART II

HISTORIC PRE-CERTIFICATE DOMESTIC DISAPPEARANCE & COMMERCIAL EXPORT

	Domestic Food	Seed	Feed	Total Domestic Disappearance	Commercial Export	Total Market Demand
Hard Winter	227	29	11	267	81	348
Soft Red Winter	106	11	17	134	30	164
Eastern White	13	2	3	18	10	28
Hard Red Spring	121	10	3	134	31	165
Durum	20	2	-	22	8	30
Western White	13	5	5	23	36	59
	<u>500</u>	<u>59</u>	<u>39</u>	<u>598</u>	<u>196</u>	<u>794</u>



Mr. MENNEL. I would like to say this includes commercial export and not programed export, and from the standpoint of the national welfare, there is a substantial difference in my opinion.

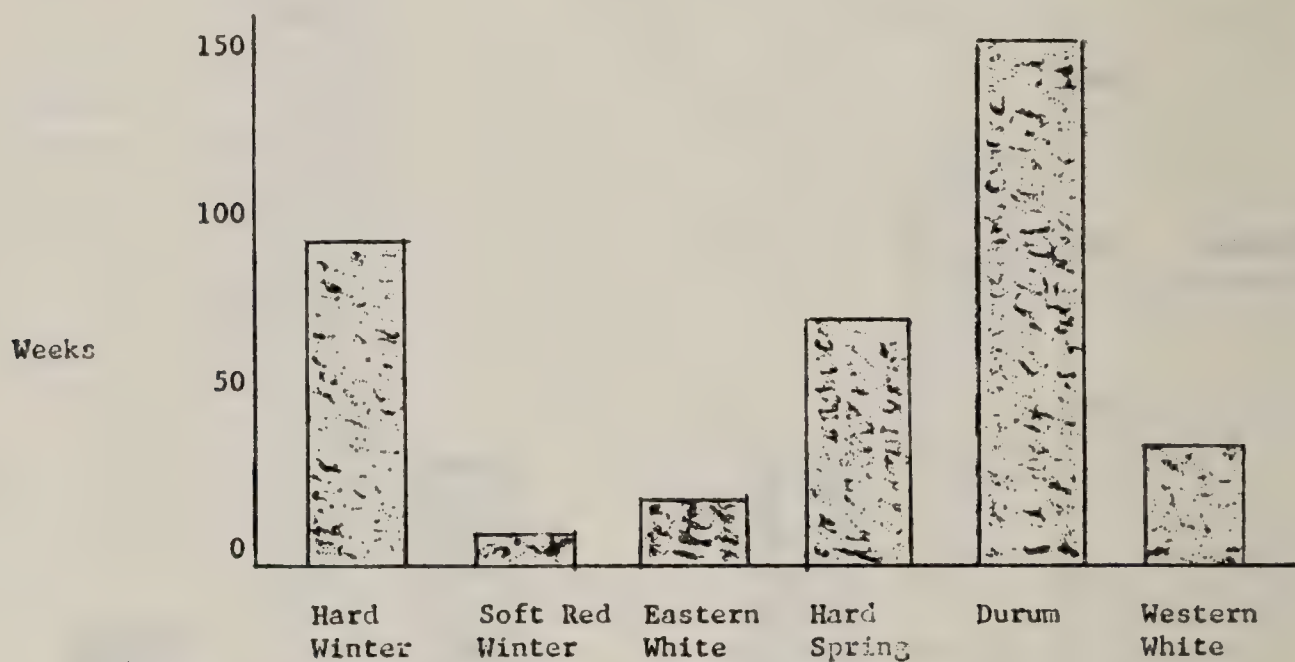
In order not to make these two charts illustrate too much, we have tried to put them together, and chart 3 illustrates carryover in weeks of total market demand.

(The document referred to follows:)

CHART III

CARRYOVER AS WEEKS OF TOTAL MARKET DEMAND

	Total Market Demand in MM Bushels/Week	Carryover In Bushels	Carryover In Weeks
Hard Winter	6.7	578	86
Soft Red Winter	3.1	15	5
Eastern White	.5	5	10
Hard Spring	3.1	204	66
Durum	.5	75	150
Western White	1.1	25	22



Mr. MENNEL. Total market demand is the domestic food, seed and feed, and commercial export. If you take the carryover from chart 1 and the total market demand converted to 52 weeks in a year, then you convert the carryover into weeks of carryover. Hard Winter wheat we have 86 weeks worth of carryover. So if you add Winter, which is our particular problem, 5 weeks. In order by the 15th of August this year, if we didn't have any harvest, we would be out. eastern White wheat 10 weeks, Hard Spring 66 weeks, Durum 150 weeks, western White 22 weeks.

I might point out in connection with Durum, and I am not here to beat a drum in connection with Durum, this was a special and specific program that was established a couple of years ago. They have since had excellent production of Durum, and it shows that it is awfully hard to control production from Washington.

The CHAIRMAN. Do you think we made a mistake when we added California?

Mr. MENNEL. No, sir.

The CHAIRMAN. You don't?

Mr. MENNEL. But I am not an expert in this at all.

The CHAIRMAN. I think that built up the production of wheat considerably, Durum wheat.

Mr. MENNEL. Yes; it did. But as I said, I am not an expert in the field of Durum at all. It seems to me that all States that produce wheat, if there are going to be controls, should be controlled one way or another.

The CHAIRMAN. Produce what the market needs.

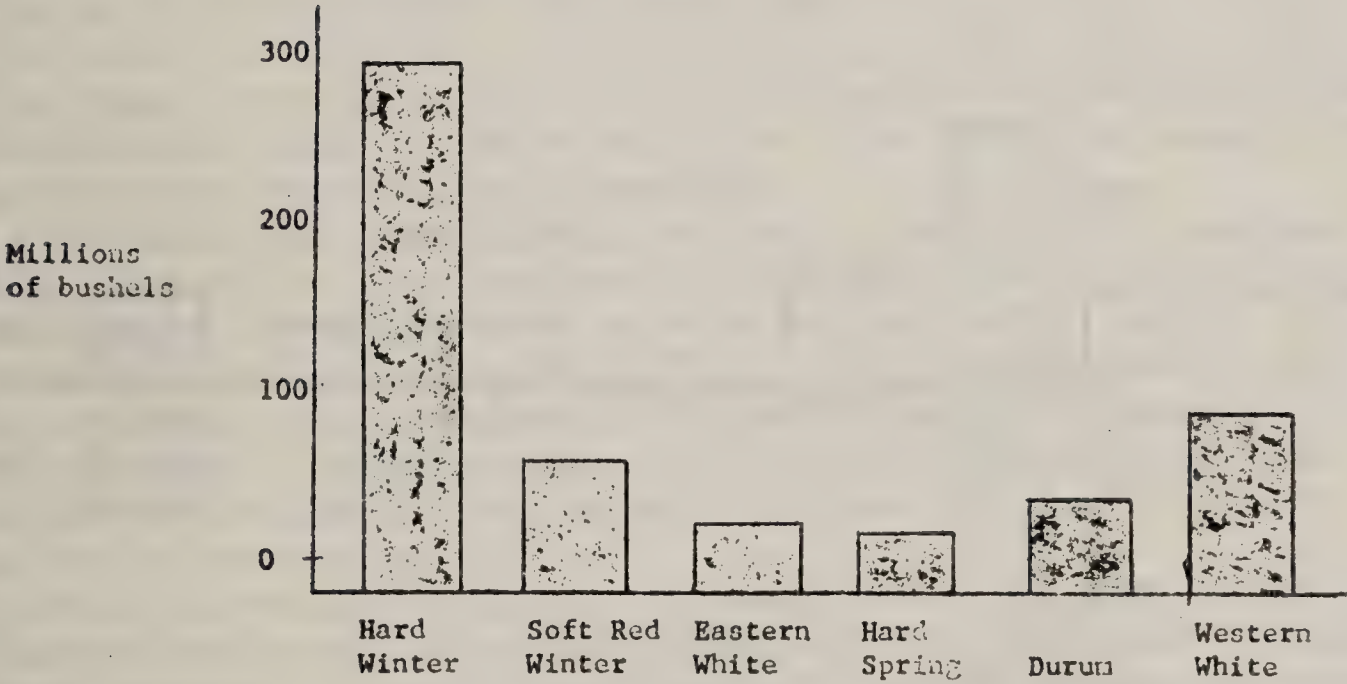
Mr. MENNEL. Correct; exactly.

Chart 4, we believe, illustrates very clearly the cause and source of the problem. After many years of Government programs, the 1964-65 production exceeded total market demand in every case. This has been the way of reducing surpluses.

(The document referred to follows:)

CHART IV
EXCESS 1964-65 PRODUCTION OVER TOTAL MARKET DEMAND
PRODUCTION IN MILLIONS OF BUSHELS

	Production	Total Market Demand	Difference
Hard Winter	642	348	294
Soft Red Winter	229	164	65
Eastern White	37	28	9
Hard Red Spring	172	165	7
Durum	66	30	36
Western White	144	59	85
	1,290	724	496



Mr. MENNEL. It must be realized that some extra production of each type of wheat would be necessary each year if carryovers were balanced to prevent scarcity of any kind of wheat. The extreme misalignment of production with total market demand is clearly shown.

Chart 4 indicates that the difference this year is 394 million bushels of Hard Winter wheat. There were 65 million bushels excess of Soft Red wheat, nine of eastern White, seven of Hard Red Spring, and so on. So the problem essentially to us in Ohio is an excessive production of Hard Winter wheat.

Thus, any wheat program, in order to succeed, must work toward elimination of excessive Hard Red Winter wheat production. The present carryover of wheats has been made somewhat more realistic in recent years by the Public Law 480 export program, but at a high

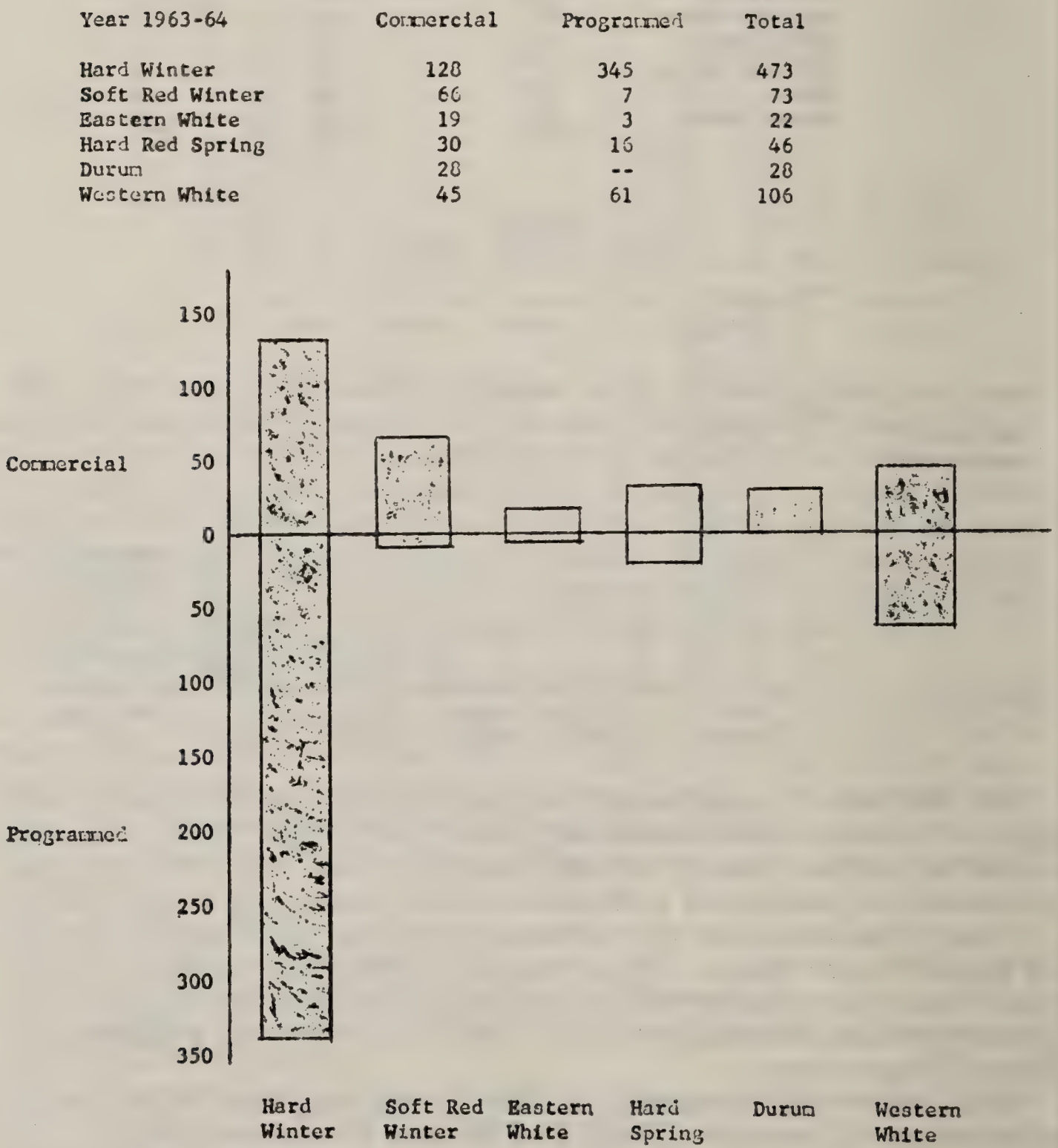
cost to the taxpayer, and it is clear programed exports would have to continue at a high rate just to stay at the present point.

Chart 5 indicates the operations of this program in relation to commercial dollar exports for the last full crop year. Here again, it becomes very clear that this program works to the primary benefit of the Hard Red Winter wheat farmer, with a secondary strong benefit to the western White wheat farmer.

You can see from chart 5 that commercial exports of Hard and Soft wheat are roughly proportional to the way they are used in this country domestically. But the whole benefit of the Public Law 480 program, the vast majority of it goes to the Hard Winter wheat farmer and to the western White wheat farmer.

(The document referred to follows:)

CHART V
COMMERCIAL VS PROGRAMMED EXPORTS WHEAT ONLY



Mr. MENNEL. So here is the problem as we see it, and it is only natural to ask the question at this point "Does the wheat certificate program as it now operates, or the program as outlined in S. 1702, solve these problems?"

We think not.

Assuming that the Department calculation in their initial presentations for the wheat certificate program of 500 million bushels for normal domestic food use is correct, table 1 indicates the distribution of this normal food use wheat by kinds of wheat and compares it to the 1965 production eligible for domestic certificates, showing the percentage of payments made to domestic food use. It is very clear from this table that while the Hard wheat farmer received approximately his share of domestic certificates, the eastern Soft wheat farmer has been badly hurt by this program, as has the Spring wheat and Durum farmer. On the other hand, the far western farmer has been benefited to an extraordinary degree. Somehow all domestic Government payments, including certificates must relate to actual domestic food usage by type.

Table 2 converts table 1 into millions of dollars. We believe this is a shameful record of the operation of the wheat certificate program. We are selfish as Soft wheat millers. We believe the American public desires our product and the farmer who supplies our raw material deserves recognition. If the wheat certificate program continues to operate in such a discriminatory manner, eastern farmers will get disgusted with the program and cease growing Soft wheat. American consumers will be deprived of the many, many products for which there is a rising demand. This is not an unfounded fear. Records were broken in a number of Soft wheat States. The least acres were planted since records have been kept, since 1909.

This thing gets complicated, I am sorry to say. It is a complicated bill. But table 1 is using normal domestic food use prorated out to the best of our ability to show what happens to 500 million bushels of wheat that is raised in this country. The second column is the best of our ability to determine the number of bushels of wheat raised in this country by type that signed up on farms for eligibility under the certificate program. We have not been able to get very much data out of the Department on this.

But it shows that the people who designed the program, the western Hard wheat people, have done pretty well—98 percent of the wheat that they would normally use in domestic food has been paid for with the domestic certificate. The eastern farmer that we are concerned about has done slightly less well, only 40 percent of the wheat, the eastern wheat that goes into food production, has received a domestic certificate. Fifty-four percent of eastern wheat, 63 percent of Hard grain, 45 percent of Durum, and then interestingly enough, the western White people have received roughly 315 percent domestic certificates related to the amount of wheat that was actually consumed in this country.

Table 2 converts this into dollars, we are talking about many dollars. This isn't very graphic, but it is the best that we could come up with.

The Hard wheat people probably lost about \$3 million under the operation of this program, but the Soft wheat people, the Soft Winter

wheat people, Red wheat, lost \$48 million. The eastern White people lost \$5 million. The Spring people lost \$34 million. The Durum people lost \$8 million.

The western White people, however, made a profit of \$21 million. This is in the distribution of the real disappearance of wheat into American bodies, and the way they were paid for it.

(The tables referred to follow:)

TABLE I.—Distribution of normal food use to certificate eligibility

	Normal domestic food use	Eligible domestic bushels	Percent eligible use to food
Hard Winter.....	227	222	98
Soft Red Winter.....	106	42	40
Eastern White.....	13	7	54
Hard Spring.....	121	76	63
Durum.....	20	9	45
Western White.....	13	41	315
Total.....	500	397	315

TABLE II.—Converts table I to dollars

[In millions]

	Should receive ideally	Actually received	Plus or minus
Hard Winter.....	\$170	\$167	—\$3
Soft Red Winter.....	80	32	—48
Eastern White.....	10	5	—5
Hard Spring.....	91	57	—34
Durum.....	15	7	—8
Western White.....	10	31	+21
Total.....	376	299	—77

Senator COOPER. When you say lost, how do you explain that?

Mr. MENNEL. If I were a farmer and I raised a bushel of wheat for which I was eligible, I should receive 70 cents on 45 percent of that bushel. If 45 percent of that bushel went into an American stomach, I would be even. But if 100 percent of that bushel went into an American stomach, I would be out 55 percent of 70 cents, because I raised a bushel that went into American food. Does that clarify it?

Senator COOPER. Yes.

Mr. MENNEL. As I said, it is a tough concept.

The CHAIRMAN. I think you are making our problem a little more complicated.

Mr. MENNEL. I am trying not to. I made a statement a while back that Ohio farmers lost \$14 million because of the operation of this program, and I asked the Department to verify it, and I haven't received an answer yet.

I may some year, but to date I haven't. Ohio farmers did not sign up very heavily last year under this program. This year we begged them to. We got publicity releases out. We sent letters to country elevators all over the State, begging them to sign up for this voluntary program, and only, I think, 56 percent or something like that signed up this year.

The CHAIRMAN. Did they sell their wheat at the going market price?

Mr. MENNEL. They sold their wheat at the going market price and didn't receive certificate payments on it.

The CHAIRMAN. I see. Did the millers benefit by that?

Mr. MENNEL. No, sir.

The CHAIRMAN. Who got the \$3 million that our farmers lost?

Mr. MENNEL. I think the Treasury.

The CHAIRMAN. The Treasury?

Mr. MENNEL. Well, the Commodity Credit Corporation. You see, they aren't paying out certificates on 500 million bushels as far as we can determine. They are only paying out certificates on 397 million bushels, if our figures are anywhere close to correct. So they receive 70 cents on 103 million bushels that nobody gets except CCC during the 1964-65 crop year.

The CHAIRMAN. The certificates have been canceled out if not used?

Mr. MENNEL. The 500 million domestic food use is going to be used.

The CHAIRMAN. I am just talking about your Ohio farmers now.

Mr. MENNEL. Yes.

The CHAIRMAN. Those are the ones we are talking about now. You say they lost \$14 million?

Mr. MENNEL. Well, let's say that 35 million bushels of Ohio wheat is used for food. The miller pays a 70-cent certificate on all 35 million bushels of it. If none of this goes back to the farmer, the miller still pays it.

The CHAIRMAN. You mean if he doesn't comply, if the producer doesn't comply?

Mr. MENNEL. Yes; say through noncompliance the Government has made a profit of over \$70 million on this.

The CHAIRMAN. I would like to see where that is.

Mr. MENNEL. So would I. This is one way of reducing the cost to the Government, I think.

The CHAIRMAN. Well, they claim that it has reduced the cost some in exports.

Mr. MENNEL. I would think it has. I haven't noticed the reduction in the budget of the Department of Agriculture because of this bill.

Senator COOPER. May I ask a question? Take Soft Red Winter wheat; I have had some interest in that because my State produces it.

Mr. MENNEL. Yes.

Senator COOPER. This year and in previous years I have received statements from farmers and millers in Kentucky pointing out that almost all of the Soft Red Winter wheat is consumed. Now suppose that x bushels were produced and the miller buys a certificate. That goes to the farmer, doesn't it?

Mr. MENNEL. No, sir.

Senator COOPER. What?

Mr. MENNEL. The certificate goes to Commodity Credit Corporation.

Senator COOPER. It goes to Commodity Credit, yes.

Mr. MENNEL. And Commodity Credit Corporation then pays the farmer who is eligible and who applies for it, and if no farmer applies for it or is eligible for it, he doesn't receive any of it. It stays in the coffers of Commodity Credit Corporation.

The CHAIRMAN. I am glad that you tried to get your farmers to sign up this year, to get this. Are they just stubborn that they won't join the program or just what is the matter?

Mr. MENNEL. I wish I knew. I speak to a great many farm groups. I spoke to one group just last week.

Senator COOPER. You mean they don't sign up because they sell their wheat locally?

Mr. MENNEL. I don't know why they don't sign up, sir. You have the same problem in Kentucky. They don't sign up in droves.

Senator COOPER. They have got a market.

Mr. MENNEL. They have a market.

Senator COOPER. They sell it.

Mr. MENNEL. They have a market, and whether they just prefer not to have these certificates paid to them or what I don't know.

The CHAIRMAN. But the sale to them there is very low, isn't it?

Mr. MENNEL. Last year farmers in Ohio received probably \$1.34 for their wheat.

The CHAIRMAN. And how much did the miller pay for that same wheat?

Mr. MENNEL. \$2.14.

The CHAIRMAN. \$2.14 or \$2.04?

Mr. MENNEL. Wait, 34 and 70, yes. My addition is bad.

The CHAIRMAN. Now any farmer who had this wheat that because of noncompliance couldn't get these certificates, could he sell his wheat for milling or any other purpose?

Mr. MENNEL. The market is the market. There is only one market.

The CHAIRMAN. Would a miller be prevented from buying this wheat?

Mr. MENNEL. No, sir. The miller can buy it freely from any farmer, whether he has a certificate or not.

The CHAIRMAN. Yes, but——

Mr. MENNEL. But when the miller grinds it, then he must pay Commodity Credit.

The CHAIRMAN. That is what I am saying.

Mr. MENNEL. This has no relation to the farmer. Commodity Credit has become the taxing agency, if you will excuse the expression, and I don't concur necessarily with the taxation philosophy of some of my fellow millers, but we have to pay for the privilege of grinding the wheat, whether the farmer receives that payment or not, and what we say is that the farmer in Washington and Oregon is receiving certificates for domestic consumption that Ohio farmers deserve because they are raising the wheat for domestic consumption.

(Discussion off the record.)

The CHAIRMAN. You may proceed with your statement.

Mr. MENNEL. When I appeared before the House Subcommittee on Wheat recently we brought a presentation of some of the many Soft wheat products which we had bought at a Washington supermarket. We brought along some 65 different products.

The CHAIRMAN. Cakes and things like that?

Mr. MENNEL. Cakes, cookies, pretzels, things like that.

The CHAIRMAN. You should have done that for our committee.

Mr. MENNEL. I wish I had. It was very good, because the hearings lasted until 5:30 in the evening, and we had a short recess while we distributed a few products.

We received informed estimates that Soft wheat is an ingredient in as many as a thousand of the more than 6,000 items on the shelves of the average market, and this program will increase cost in each one of these.

It is safe to assume that these increased ingredients costs will be pyramided by the time they reach the consumer. I might say in this connection I am not here talking about raising the price of a loaf of bread. I am not interested in bread. We don't make flour. Our association doesn't make flour for bread production.

Our sales to wheat goes into many, many items. It is a small part of some. It is a large part of some. And I am sure that the pricing of those items is based upon the total ingredient cost. And to say that a box of crackers will be raised a penny a box or something like this I just can't say. I don't know, but I do know that as the various ingredients going into these boxes gets increased, somebody pays it, because it doesn't come out of a baker, and in spite of evidence to the contrary, it shouldn't come out of the flour miller.

The CHAIRMAN. How much more are you paying for wheat now than you paid say 2 years ago before the program went into effect?

Mr. MENNEL. The review of the price, the price-support structure, was——

The CHAIRMAN. I mean including freight and all your expenses, f.o.b. your mill. How much more are you paying for your wheat now than you paid before this program went into effect?

Mr. MENNEL. We have two price structures that we are talking about. Prior to an 18-cent direct payment we were paying \$2 price support national average, and this meant the mill, our mill, was paying roughly \$2. Then we had the 18-cent direct payment which dropped the price 18 cents, and we were paying roughly \$1.82.

Now we have a price support on this last year of \$1.30 and a 70-cent certificate, which should be \$2. So we are right back to the same price that we were prior to the 18-cent direct payment. Because of the operation of the program, we have had a shortage of Soft wheat the last several years, however, and we are actually paying this last year \$2.04.

Now this coming year we have reduced soft wheat very materially. The estimates are way down, 20 percent for the State of Ohio. The support price is down a nickel. The certificate is up a nickel. The cash wheat currently is higher than it was last year at new crop. I suspect we will probably pay a dime or 15 cents a bushel more than the old historic——

The CHAIRMAN. Who gets the benefit of that right now?

Mr. MENNEL. The farmer.

The CHAIRMAN. Sure, that is what I thought.

Mr. MENNEL. And I am not quarreling with farm income. My argument as a miller very often has been, as you recall, that the eastern farmer is having a dreadfully hard row to hoe, and we are not in favor of this, because we want him to raise more wheat. We want him to keep a supply of wheat that we have to have.

The bill under consideration—incidentally I should say in further amplification here that if the bill that we are studying goes through we aren't talking about \$2. We are talking about \$2.50 or \$2.54 or \$2.56, something like that, per bushel.

The CHAIRMAN. You mean it could be that?

Mr. MENNEL. It could be that.

The CHAIRMAN. Yes.

Mr. MENNEL. Yes.

The CHAIRMAN. Because the Secretary of Agriculture could pay from 65 to 100 percent of parity.

Mr. MENNEL. It is my understanding, however, that he has committed himself. At least \$1.50 certificate, or a \$1.25 certificate, excuse me.

The CHAIRMAN. Well, he hasn't done it before this committee as I remember it.

Mr. MENNEL. I see. The bill under consideration recognizes——

Senator HOLLAND. You mean he has committed himself to raising it from 70 cents to \$1.25, that is my understanding. That would be a very important fact to have before this committee, Mr. Chairman.

The CHAIRMAN. We are going to call him back, you see. As I told the Secretary, we are going to get all this outside information from witnesses, and then call him back and ask him specifically to admit or deny the arguments pro and con on the bill. We will go into that.

Mr. MENNEL. The bill under consideration recognizes that commercial exports have not been treated realistically. The present wheat certificate program for 1964-65 supported 500 million bushels for export certificates. This amount is being reduced in 1965-66, and S. 1702 will give the Secretary the opportunity to eliminate export certificates entirely. Since commercial exports have historically averaged slightly under 200 million bushels, the certificate program has supported programmed exports to a greater degree than commercial exports.

We believe the farmer has not enjoyed the same degree of prosperity as the industrial worker, but we have seen statements based upon USDA statistics that in only 3 years since 1924 has the farmer received parity for his wheat. We do not believe it is right to transfer the onus of the farm program, including its diplomatic manifestations from the American taxpayer, including corporate taxpayers, and place it wholly on the shoulders of the American consumer, particularly when this program will not, in our opinion, solve the essential problem of raising too much of the wrong kinds of wheat.

Ninety percent of the U.S. population used flour as flour, but only 20 percent of the families consumed more than 65 percent of all the flour used. Rural and other low-income families, such as live in Appalachia and other similar depressed situations, consumed many times the national average amount of flour. By far the most popular size and type used by this group is the 25-pound bag of enriched family flour, made in large part from soft wheat. Here again, about 20 percent of the families consume over 60 percent of the total volume.

To these low-income families, flour is a major part of their family diet. They consume individually over 500 pounds annually, compared to the national average of less than 120 pounds.

Senator HOLLAND. Where do you get that 500-pound figure?

Mr. MENNEL. This figure we received from one of the national milling companies that is in the family flour business, and they received it from a survey that they had conducted for them by a private survey company. They say that this is quite conservative.

Senator HOLLAND. Can you produce the names both of the company and of the survey organization?

Mr. MENNEL. I can't give you the name of the survey organization because I don't know it. The company is the Pillsbury Co. Mr. McNeill was here this morning from that company.

The CHAIRMAN. The average consumed by individuals is 116 pounds.

Mr. MENNEL. It is way down, right, but I imagine that you consume about as much flour in your home as I do in mine. It is pretty small. But in an Appalachian home it is a major part of their diet, the biscuit and spoonbreads and the things that they eat is a major part of it, they tell me.

The CHAIRMAN. The only flour I use in my home is about 22 pounds a year to make some roux, to make good gravies. The other I buy.

Mr. MENNEL. That is what has happened to the business.

The national average price at the present time for such a bag of flour is \$2.23. Thus, a 50-cent increase in the price of a bushel of wheat will increase the cost of a 25-pound bag by at least 28½ cents at the mill door, which will very likely mean an increase to the housewife of 35 cents per 25-pound bag. It is my understanding that wholesalers and retailers mark these things up on a percentage basis. That is where we have arrived at their 35 cents.

The low-income family food budget will be increased by over \$7 per year for flour alone, not considering the additional costs created by bread and other flour-based products. This amounts to about a 15-percent increase in the costs of a major item in the diet of those who can afford it least. We question that this is fair or the intention of the administration.

The consumption of wheat end products is declining. We know of no economic or marketing principle that supports the theory that the way to reverse a declining trend in consumption is to raise the consumer price. It seems to us, therefore, that the proposed program is self-defeating.

Recently in a meeting sponsored by the Department of Agriculture to study wheat utilization, wheat producers, wheat processors, and wheat end-product manufacturers were brought together.

Incidentally, we have a meeting of this group tomorrow in Chicago. We believe it is significant that at these initial meetings there were no representatives of eastern wheat producers, in spite of the fact that Ohio is second only to Kansas in the number of wheat farmers, and I have got to correct my statement at this point, because my table, table III, says that Ohio is third in the number of wheat farmers. Illinois is ahead of Ohio. Kansas is first, Illinois is second, and Ohio is third in the 1961 statistics.

Senator HOLLAND. You are speaking only of the number of farmers.

Mr. MENNEL. Number of farmers.

Senator HOLLAND. Not volume of production?

Mr. MENNEL. No; not volume of production, number of farmers. And a majority of wheat farmers live and produce in Soft Red Winter wheat and eastern White wheat territory.

Soft wheat is an important crop in its area, but it is produced in a way vastly different from the way wheat is grown in the West. Soft wheat is raised in a diversified farming operation on relatively small

acreages on a great number of farms. According to the latest available data, there are about 1,700,000 wheat farms in the United States. More than 1 million of these are in the Soft wheat area. Not all of these wheat farms raise wheat every year; however, in 1961, the latest year for which detail is available, 699,000 Soft wheat area farms planted wheat, as compared with 566,000 in the rest of the country. Of the top 10 States in number of wheat farms, 7 are Soft wheat areas States. Wheat is important to these Soft wheat area diversified farms, both as a cash crop and as a needed part of a historical crop rotation pattern.

The typical Soft wheat farmer plants about 11 to 12 acres and produces about 400 bushels. The average wheat producer in the rest of the country plants about 80 acres and produces 1,600 to 1,800 bushels.

Table 3 illustrates the latest available statistics on the number of wheat farms and their average size by major wheat-producing States, by kind of wheat raised.

Table 4 divides the major wheat States by kind of wheat raised, showing the June 1, 1965 estimated acreage for wheat and yield per acre.

Looking at these tables, it is clear that the Soft wheat farmer typifies the efficient family farmer the administration desires to aid. An average Soft wheat farmer farms wheat on around 13 acres and yields about 33 bushels to the acre, compared to an average Hard wheat farmer around 75 acres and yields about 24 bushels to the acre. Yet the operation of this program discriminates viciously against him.

(Table III and table IV follow :)

TABLE III.—*Number of wheat farms and size in States raising 5,000,000 bushels or more*

	1961	
	Number of wheat farms	Average acres harvested per farm
Eastern Soft wheat:		
Indiana.....	89,783	14.4
Ohio.....	104,301	14.0
Michigan.....	82,574	13.5
Pennsylvania.....	50,561	10.4
Arkansas.....	10,200	15.9
New York.....	17,216	14.2
North Carolina.....	49,191	8.0
Kentucky.....	12,632	13.9
Virginia.....	27,383	9.5
Hard winter:		
Kansas.....	127,706	80.9
Oklahoma.....	67,529	68.4
Texas.....	53,937	68.4
Nebraska.....	67,667	47.6
Colorado.....	16,035	153.9
Hard Spring and Durum:		
North Dakota.....	64,486	88.9
South Dakota.....	35,511	63.3
Minnesota.....	48,304	21.2
Western White:		
Washington.....	12,257	161.0
Oregon.....	10,336	77.0
California.....	2,936	114.8
Mixed (more than 30 percent of 2 kinds of wheat):		
Montana.....	19,506	188.6
Illinois.....	105,064	15.9
Missouri.....	87,195	15.8
Idaho.....	20,836	52.0
Utah.....	6,083	35.3

TABLE IV.—*Estimated production June 1, 1965, by State by kind*

	Thousands of bushels ¹	Thousands of acres	Bushels per acre
Eastern Soft wheat:			
Indiana.....	41,440	1,184	35.0
Ohio.....	36,177	1,167	31.0
Michigan.....	30,456	846	36.0
Pennsylvania.....	13,600	425	32.0
Arkansas.....	11,368	392	29.0
New York.....	6,615	189	35.0
North Carolina.....	5,771	199	29.0
Kentucky.....	5,280	160	33.0
Virginia.....	5,046	174	29.0
Hard Winter:			
Kansas.....	241,320	10,055	24.0
Oklahoma.....	135,268	4,831	28.0
Texas.....	69,036	3,138	22.0
Nebraska.....	62,370	2,835	22.0
Colorado.....	14,917	1,109	13.0
Hard Spring and Durum:			
North Dakota.....	152,670	(1)	(1)
South Dakota.....	35,332	(1)	(1)
Minnesota.....	22,758	(1)	(1)
Western White:			
Washington.....	89,943	1,983	41.0
Oregon.....	25,788	633	36.0
California.....	8,505	290	28.0
Mixed (more than 30 percent of two kinds of wheat):			
Montana.....	90,891	2,421	24.0
Illinois.....	58,127	1,571	37.0
Missouri.....	34,290	1,143	30.0
Idaho.....	44,196	766	38.0
Utah.....	6,126	166	24.0

¹ Not available.

Mr. MENNEL. You will note that the farms are small in the eastern territory. Out West they grow much larger. Incidentally, in passing, I have often heard the discussion of the commercial wheat area, I have heard discussion of historic wheat areas, I thought it might be interesting to the committee that wheat was first grown in Ohio in 1788, and in the census of 1839 Ohio ranked first in the United States in total production of wheat. I think that we have got a historic background there that is pretty good.

At the same time I would like to point out that as recently as 1920, according to a statement put out by the Kansas State Department of Agriculture, wheat didn't become a major crop for the State of Kansas until the early 1920's, at which time it replaced corn. I am forced to admit they have done a real good job raising a lot of wheat ever since out there, but corn was the major crop out there. The high point for Ohio was 1898 when they harvested over 3 million acres, and we have been going downhill ever since.

Senator HOLLAND. You mean to tell me you have gone downhill since the small-farm exemption for wheat was placed in the law here some years ago?

Mr. MENNEL. Yes, sir.

Senator HOLLAND. This runs counter to all the information the committee has been given through the years.

Mr. MENNEL. I don't have the statistics for the last 4 or 5 years, but this year is the smallest acreage ever planted in wheat.

The CHAIRMAN. What is it, do you know?

Mr. MENNEL. It is just over a million acres, 1.1, something like that.

The CHAIRMAN. They weren't prohibited from planting. They found something that was more profitable?

Mr. MENNEL. They lost the 15-acre exemption, however, you see. Presumably they did find something more profitable. I don't know. But the total Soft wheat acreage this year is the smallest it has been since records have been kept, and that starts, I think, in 1909. Incidentally we are talking about efficient family farms. The Soft wheat area averages about 33 or 34 bushels to the acre, and the Hard Winter area averages about 23 or 24 bushels to the acre. I don't know what your definition of the efficiency is, but to me it is more efficient to raise more bushels per acre. Our statement of February 10, 1964, before this committee contained a proposal that the county support level be adjusted to reflect the amount of wheat taken over by CCC. We still believe this to be a sound theory.

In addition, we believe terminal price support rates should be adjusted to reflect CCC inventory levels and the amounts of surpluses requiring Public Law 480 assistance by kinds of wheat. In other words, kinds of wheat appearing to be in surplus should not have the same high support rate that wheats in relatively good balance should have. We understand the Department of Agriculture is starting a review of this total procedure. We hope it will find a better basis for setting loan levels and rates. We applaud this effort.

Senator HOLLAND. Why should the kinds of wheat that don't produce a surplus have a support price?

Mr. MENNEL. Let me answer that in this way, sir. March-April issue of the Ohio Agricultural Stations, Ohio report has a survey put out by an economist at Ohio State on farm programs. They had a random sampling of Ohio farmers. They asked in this:

"Which of the four basic types of farm programs do Ohio farmers prefer: (1) Mandatory supply management and marketing quota program, (2) voluntary land diversion program, (3) whole or partial farm retirement program, or (4) free market with no Government programs?"

Three percent wanted the marketing quota program such as we have now, 24 percent favored voluntary land diversion, 17 percent selected long-term whole or partial farmland retirement, and 41 percent chose no farm programs at all.

Senator HOLLAND. This is in rather clear accord then with the outcome of the referendum of 2 years ago?

Mr. MENNEL. Yes, sir; it certainly is.

Senator HOLLAND. In other words, this is the same result so far as that area is concerned under the new law that they gave under the old law?

Mr. MENNEL. Yes, sir.

Senator HOLLAND. I believe the referendum was under the 1958 law, wasn't it, Mr. Chairman? I can't remember.

The CHAIRMAN. 1962.

Senator HOLLAND. The 1962 law?

Mr. MENNEL. Yes.

The CHAIRMAN. A while ago you mentioned about the acreage of wheat grown in Ohio. The average for 1944 to 1953 was 2,142,000, and for 1964, 1,373,000 acres.

Mr. MENNEL. You can see why I am concerned. Thank you.

The CHAIRMAN. They might be growing something that is more profitable. You know what they did in the South. Cotton was king

in the South at one time. A lot of people shifted from cotton to other commodities, lost their history, and lost their cotton acreage.

Mr. MENNEL. I can't prove my statement on this because the statistics aren't out, but I think that Soft wheat products are probably the only products of wheat in this country that are going up in consumption. I can't prove this, but I am pretty close to right on it, I think.

Senator JORDAN. Mr. Chairman, may I ask a question at that point? Will you recommend that Soft wheat be supported at a higher price than the Hard Winter wheat?

Mr. MENNEL. Yes, sir; I would. The program that I suggested in 1964 and the program I am suggesting today would have that net effect.

Senator JORDAN. In other words, the Hard Winter wheat is in surplus now?

Mr. MENNEL. Yes.

Senator JORDAN. And they have grown it for the Government instead of for the bakeries?

Mr. MENNEL. Yes.

Senator JORDAN. Is that about it?

Mr. MENNEL. This is right, precisely correct.

The CHAIRMAN. They are growing it for Public Law 480.

Mr. MENNEL. This is the Government.

The CHAIRMAN. Foreigners, that is what it amounts to.

Mr. MENNEL. This is correct.

Senator HOLLAND. You would do this in spite of the fact that the survey shows that the producers of Soft wheat or the large preponderance of them don't want any price support at all?

Mr. MENNEL. They don't take advantage of the program now, but if you set a higher floor under it, you are going to raise the price to them, you are going to then induce them to raise more Soft wheat and keep us having a supply for the American public that the American public desires. If they keep forcing the price of Soft wheat down and down through the working of this program, through the elimination of historic exports, through giveaway and other things, we will end up without having enough to take care of the domestic demand, and I think this would be a shame.

The CHAIRMAN. You may proceed with your statement.

Senator COOPER. Why don't they go in this program then?

Mr. MENNEL. I don't know. They are getting more than the basic loan price now. The basic loan price is \$1.25 and the farmers are receiving \$1.30, \$1.35, so they are receiving more than the support price now. Possibly this is why. Possibly they are overplanting and therefore don't want to comply. I really don't understand their theory at all.

Senator COOPER. If the price is working to their benefit now——

The CHAIRMAN. You can well understand their position; 43 percent of the Ohio farmers voted for no program at all, and I think the fact that they won't join up with this program indicates that they don't want any program whatever.

Mr. MENNEL. I think this is exactly correct.

Senator JORDAN. Of course, if there is not a support price on the overall wheat, they would be in trouble; that is, a number of them would.

Mr. MENNEL. It is a floor.

Senator JORDAN. Yes. It gives them some stability there.

Mr. MENNEL. That is why we propose that the county support levels should be adjusted by CCC takeover by county, a year ago. If you have a situation where a county had the majority of its wheat taken over by CCC, that county should certainly not have the same support level as the county where all of it went to domestic use, it seems to me enlarged. If the CCC program is a support program, it should be that. It shouldn't be a market.

Senator HOLLAND. What is the interchangeability of wheat for the purpose of use by the bakers and millers and others?

Mr. MENNEL. This is a question that often comes up. Let me answer it in this way.

Currently because of the operation of the support program, the supports in the Eastern United States are substantially lower delivered in New York City than it is on wheat from say North Dakota or Kansas, so that the price of wheat delivered in whatever form in New York City would be substantially on Soft wheat than on Hard wheat.

If it were possible to use Soft wheat in the manufacture of bread, I can assure you that all the bread in New York City would be baked out of Soft wheat flour. But it isn't. It is baked out of Hard wheat and Spring wheat flour.

Senator HOLLAND. It couldn't be if there is just a tiny little bit of stocks on hand when you get through with what they are baking now.

Mr. MENNEL. If it were usable in bread there wouldn't be any stock in hand because it would have all gone into the eastern market. Our laboratory has tried many, many times when a few years ago we paid 45 over July for Soft wheat just for harvest, if we could have used Hard wheat to produce the products that we were making at that point, we certainly would have done it, because we would have saved about 30 cents a bushel at that point.

By the same token even we just recently have been shipping cake flour out to California from Ohio, because it makes the quality of product that they want, and they aren't able to get this particular kind of flour from any wheat that is available closer to them.

The substitutability factor, you can substitute between White and Red, Soft White and Soft Red to a degree. You can substitute between Hard Spring and Hard Winter to a degree. There is even some evidence that you can substitute a little bit of Hard Spring into some of the Durum products, without getting into major trouble. But if you cross between the Soft and the Hard, you are into all sorts of trouble right now. It won't bake the proper cake, biscuit, cracker, cookie, what have you.

The CHAIRMAN. Proceed.

Mr. MENNEL. It seems to us that the wheat support program as it has developed over the years supports the price for the worst of the hard winter wheats and the best of the soft winter wheats. This is improper and needs a great deal of study to correct. We believe the Secretary must have specific instructions and broad powers to realine wheat allotments among the various States as so to minimize CCC stocks and insure adequate supplies of the various kinds of wheat the American consumer demands at reasonable and stable prices.

We believe inequity can also occur in connection with the "poor variety discount." This is a discount on wheat raised primarily out West, which is not as satisfactory quality.

With the change to a world wheat price support level, this discount factor on the basic support price no longer has any real meaning. A farmer may raise "poor variety" wheat because it will bring forth more bushels per acre. He is now able to sell that wheat at feed grain prices on the open market, which is closely aligned to the support price, and so he may not be interested in raising quality wheat. We believe this discount should be applied to the wheat certificate payment that such a farmer receives. This would be a definite stimulant to quality rather than quantity production.

USDA data prove conclusively that supply and utilization of the various kinds of wheat are not at all uniform, yet the certificate payment received by farmers is uniform, regardless of whether that farmer raises his wheat for a domestic market or for a Government-financed program. This is not right either.

We believe the new program should provide that a farmer who turns his wheat over to the CCC in the spring in default of his loan should not receive the same amount of domestic certificate value per bushel that a farmer receives who sells his wheat on the open market. Ideally, a farmer whose wheat enters domestic consumption channels should receive certificates, while the farmer whose wheat is not raised for a domestic demand should not.

The present law is very confusing concerning who shall pay how much for what certificates. We believe the Department of Agriculture has tried very diligently to follow the intent of Congress in administering this law. The proposed bill clarifies the confusion a little. We believe it should be made crystal clear to avoid inequities or unintentional violations.

We heard the testimony of the wet corn industry before the House. We do not agree with the windmills they have erected. We believe their fears are without foundation and that the Department of Agriculture has studied the problem of nonfood use of wheat thoroughly and their proposal for clarification of this language is sound and needed.

The elimination of the sedimentation test from the support program is also sound.

I would like to inject here, when they eliminated the sedimentation test they substantially increased protein premiums so this should help the gentleman from Montana in the problem which he posed, which is a very real problem in Montana.

It is interesting that the Hard wheat producers of Montana and the Soft wheat producers of Ohio have almost exactly the same problem. They both raise a product that is in demand and therefore this program seems to discriminate against them both.

We would like to suggest that protein premiums also have no place in a price support program and should apply to the wheat certificate if at all. We believe if the aid programs were designed to minimize CCC ownership and the need for Public Law 480 exports, the marketplace would supply the necessary premiums without costing the American taxpayer.

The question of substitutability of one kind of wheat for another is often raised. We have often outlined in detail our position on this. We suggest that if Soft wheat could be used for bread, all the bread in New York City would be made from eastern Soft wheats.

We, as Soft wheat millers, must reiterate, as we have done at each previous appearance, that "wheat is not wheat," but many kinds of wheat. Certainly wheat is not bread alone. There is a very broad market for Soft wheat, and Soft wheat is not in surplus.

Therefore, as you consider this bill, do not approve it on the assumption that it will cause little more than an innocuous, insignificant increase in the cost of a single food item. Rather, it dictates a highly discriminatory increase in the food costs of those families who can least afford it.

I certainly appreciate very much the opportunity to be here, and I will be happy to answer any further questions.

The CHAIRMAN. Thank you very much, Mr. Mennel. Are there any further questions? If not, thank you very much, Mr. Mennel.

Mr. MENNEL. Thank you very much.

The CHAIRMAN. You have been a very good witness.

Mr. Johnstone.

Senator JORDAN. Mr. Chairman, I would like to introduce Mr. Johnstone. He is one of the prominent citizens of North Carolina. He is from Charlotte. He is vice president of the Lance Packing Co. in Charlotte. They make crackers.

They are very, very large manufacturers of crackers, cakes, peanut butter crackers, peanuts, all of them good, the best there is anywhere in the world.

The CHAIRMAN. He has very little competition. Proceed, Mr. Johnstone.

STATEMENT OF E. P. JOHNSTONE, PEANUT BUTTER MANUFACTURERS ASSOCIATION, CHARLOTTE, N.C.

Mr. JOHNSTONE. Thank you. As Senator Jordan has said, my name is E. P. Johnstone. I am vice president of Lance, Inc., of Charlotte, N.C., and I appear as a member of the board of directors and in behalf of the Peanut Butter Manufacturers Association. This association is the national trade association representing peanut butter manufacturers, peanut butter sandwich and cookie manufacturers, and suppliers of goods and services to the industry.

This particular appearance is entered in behalf of manufacturers of peanut butter sandwiches and cookies who also manufacture cream-filled sandwiches, big bars, and other similar items. The purpose of my appearance is to discuss the wheat provisions of these bills.

We recognize that the objective of this legislation, as far as wheat is concerned, is to be of help economically to the wheat farmer. Although the consumer has a very important and vital interest, my observations will pertain particularly to the contemplated result as it would affect the wheat farmer.

A peanut butter sandwich, as referred to in this presentation, consists of two crackers with peanut butter in between. Most popularly, peanut butter sandwiches are marketed in packets of four, wrapped in cellophane or similar material, and retailed at 5 cents. We are proud of our product. It is good food, and yet it is one of the few foods which may be purchased for a nickel. Certainly it represents an exceptionally good value to the public. We want to continue to be able to offer this good value to the public. As long as the public

buys our product in equal or increasing quantity, it means good business for the wheat farmer.

As I indicated, customarily these sandwiches are sold in packets of four-for-a-nickel. According to our calculations, if H.R. 8829 as approved by the House Agriculture Wheat Subcommittee should become law we would have to pay at least 28.5 percent more for flour in 1966 than in 1964. This will be in addition to higher prices we must now pay, as compared with 1963, as a direct result of the 1964-65 wheat certificate program.

This 28.5-percent increase is based on the 100-percent-parity requirement of the House subcommittee approved bill which would mean a \$1.32 wheat certificate based on full parity for May 1965. In all probability this would mean the end of the current four-sandwich packet in its present size retailing for 5 cents. Although, of course, members of the committee do not have detailed knowledge of our business, I am sure you will readily recognize that we could not absorb such a heavy cost increase in the price we would have to pay for flour, which is one of our highest costs in the manufacture of peanut butter sandwiches.

The CHAIRMAN. Do you make your own crackers or do you buy them?

Mr. JOHNSTONE. We make our own crackers. We are one of the few in our industry who do.

Senator JORDAN. They are large enough to justify the manufacture of their own crackers.

Mr. JOHNSTONE. Yes; we operate a 4-oven plant.

Senator HOLLAND. A what?

Mr. JOHNSTONE. A 4-oven plant.

Let us contemplate what the actual result would be. First, let it be recognized that a very substantial percentage of our product is sold through vending machines. This presents two important considerations. One consideration pertains to the size of the packets and the other to our coinage system.

Regarding the size and shape of the packets which in all probability would be required to be changed if the flour price should be increased, this would also necessitate a change in the machinery of the vending machine. This would be very costly and an expense which would have to be passed on to the consumer with no benefit to the consumer. To the farmer it would mean reduced wheat sales because the consumer would be getting less for his money.

Here I would like to mention, Senator, it not only would mean reduced usage of wheat, but also reduced use of peanuts, because if we have to reduce the size of the cracker or the number of sandwiches in the package, we would also have to reduce the amount of peanut butter spread.

Concerning the coinage system, our packets of peanut butter sandwiches must have a retail price to fit our coinage system. It is completely impracticable to merchandise our products through vending machines at 6, 7, or some other odd cents amount. Therefore, the first question arises, "How could we stay at a nickel?" Obviously, we could not still offer the same 4-sized sandwiches to the consumer for a nickel. Perhaps we would have to reduce the packet to three sandwiches. Conceivably, we would still be able to offer four sand-

wiches but with a sharply reduced sandwich size. In any event it would mean less volume of sandwiches for 5 cents. This, of course, would mean that we would buy less flour which would mean reduced wheat sales by the farmer for the use of his product in the manufacture of peanut butter sandwiches. This is why we say the bill would not help him insofar as peanut butter sandwiches, cookies, cream-filled sandwiches, fig bars, and other such items are concerned.

There would be an alternative. It would be to discontinue entirely the manufacture of 5-cent packets and produce instead only 10-cent packets. The end result would probably be the same in terms of total overall volume reduction, as if we were to reduce the quantity contained in nickel packets. If we should sell only 10-cent packets, we are convinced that the overall volume of crackers would not be as great as if we were to continue to manufacture our 4-sandwich packets, which retail at 5 cents. In addition to the farmer losing, of course the consumer would lose whether we reduced the size of a 5-cent packet or offered the consumer proportionally the same in a 10-cent packet as we would be able to offer him in a 5-cent packet at the higher flour price.

In the interest of both producers and consumers, we urge the committee not to act favorably on the wheat provisions of these bills.

The CHAIRMAN. Thank you. Are there any questions?

Senator HOLLAND. What is the size of the trade association or rather the industry that manufactures these peanut crackers and the other crackers which you mentioned, all of which use the wheat in the crackers?

Mr. JOHNSTONE. Senator Holland, I do not know exactly, but I would say there are in the neighborhood of some 40 or 50 producers of peanut butter sandwiches in the country.

Senator HOLLAND. What is the total volume?

Mr. JOHNSTONE. We have no industry figures. I can quote you usage of figures of our own company. We have purchased and will use this year some 340,000 hundredweight of flour.

Senator HOLLAND. 340,000 hundredweight?

Mr. JOHNSTONE. Yes; and all of this is Soft wheat flour. We cannot make crackers from Hard wheat, although we have tried diligently.

Senator HOLLAND. What is your size as compared with the average size of the competitive businesses?

Mr. JOHNSTONE. I would say that we are one of the larger ones.

Senator HOLLAND. Surely there must be figures somewhere in the Department of Commerce or elsewhere to reflect the size of your industry.

Mr. JOHNSTONE. There may be. I do not have those, Senator.

Senator HOLLAND. Thank you, sir.

Senator JORDAN. We have two there.

Mr. JOHNSTONE. Yes, sir; two others in Charlotte—Swinson Food Products and Mitchum & Tucker.

Senator JORDAN. Neither one of them make their own crackers?

Mr. JOHNSTONE. No, sir.

Senator JORDAN. Nor the peanut butter?

Mr. JOHNSTONE. Most companies manufacture their own peanut butter. If they do not manufacture their own crackers they nevertheless have to be purchased and therefore they have the same interest in the cost.

Senator JORDAN. Yes; I understand that.

Senator COOPER. May I ask a question here?

Mr. JOHNSTONE. Yes, sir.

Senator COOPER. If this bill should pass, of course, it would increase costs somewhat and I assume could have the effect of raising the price of many consumer products. Do you think your business would be more adversely affected than other businesses which purchase wheat for use in their products?

Mr. JOHNSTONE. We do, Senator, for the simple reason that ours is strictly a snack item. It is not a home consumption product.

We feel from our marketing investigations that we would be unable to go to an odd number of cents as does bread. We believe it would be necessary to reduce the amount offered for a nickel and thereby reduce the total amount in the package.

Senator COOPER. I am one of your customers.

Mr. JOHNSTONE. Thank you, Senator. We appreciate that.

Senator JORDAN. Mr. Johnstone, isn't it true that over the past several years you have constantly been forced to pay higher prices for peanuts and a great many things? You have just about reached the limit. You must pass it on or quit making it?

Mr. JOHNSTONE. That is correct.

Senator JORDAN. At one time you took it out of your own hide, but your hide is about gone.

Mr. JOHNSTONE. We absorbed all of the increase that we experienced in flour last year.

Senator JORDAN. I realize there is a limit.

The CHAIRMAN. There is such a demand for the Lance products that they won't go out of business.

Mr. JOHNSTONE. We hope not, sir.

Senator HOLLAND. Are these businesses mostly located in the peanut-producing areas?

Mr. JOHNSTONE. No, sir. There are concerns in Chicago, New England, Middle West, southern California.

Senator HOLLAND. There are some in Georgia?

Mr. JOHNSTONE. Yes, the Tom Huston Peanut Co. is in Georgia.

The CHAIRMAN. Thank you, Mr. Johnstone.

For the record I submit a letter to Senator Smathers dated May 15, 1965, signed by Sidney Gelber, president of Garden Bake Shop, Inc., and also a statement from the California Farm Research and Legislative Committee. They will be placed in the record at this point.

(The two letters referred to follow:)

MIAMI BEACH, FLA., May 15, 1965.

DEAR SENATOR SMATHERS: I wish to protest most strongly the provision in the agricultural bill now being considered, S. 1702, which places a processing tax on the marketing of wheat into flour of \$1.25 per bushel of wheat which is equivalent to \$2.85 per 100 pounds of flour.

While an attempt is made to hide the nature of this impost by calling it a "marketing certificate," it is actually a processing tax which is equivalent to a sales tax.

This processing tax of \$2.85 per 100 pounds of flour is equivalent to a sales tax of from 60 percent and upward of the wholesale price of flour. Inasmuch as this tax will bear most heavily on the lower income families, this tax makes a mockery of any claim to reduce poverty.

Sales taxes of even 4 to 5 percent are considered so burdensome, that food products are very often exempt therefrom, which is an indication of how burdensome and wicked a sales tax of 60 percent or over on such a primary food product as flour must be considered.

The taxation of one portion of the people (the urban consumer) for the sole benefit of another portion of the population (the businessman farmer) is a new concept and highly detrimental to your constituents, particularly the lower income portion thereof.

Your assurance that you will actively oppose and vote against such a tax, is requested.

Very truly yours,

SIDNEY GELBER,
President, Garden Bake Shop, Inc.

SANTA CLARA, CALIF., June 15, 1965.

Hon. ALLEN J. ELLENDER,
Chairman, Senate Committee on Agriculture and Forestry,
Washington, D.C.

DEAR MR. ELLENDER AND MEMBERS OF THE COMMITTEE: Enclosed you will find two statements presented by our committee on H.R. 7097, the "Food and Agriculture Act of 1965" at hearings before the House Committee on Agriculture—the first on April 26 dealing with the basic philosophy embodied in the measure; the second, on May 21, 1965, dealing specifically with title III—Rice.

We ask that these two statements be made part of the record of the Senate hearings which we understand will open "pro forma" on June 16, formally on June 19 and are expected to be debated in depth after the July 4th holiday recess.

Much has been written in the farm and daily press acrimoniously for and against those who support the philosophy of the milling certificate "pass-through" to the ultimate consumer. We are not moved by these criticisms, no matter what justifiable ends they may seem to serve.

We have maintained, since our committee was organized in February 1941, that those whose investment, skills, and inputs of labor make possible the vital production of food and fiber, are entitled to a share of the economy in line with that of other sectors of production with equal investment, skills, and inputs of labor.

We have maintained that the Nation's taxpayers as a whole have the responsibility of seeing that the travesty of lower prices to farmers, often, all-too-often—below cost of production and ever-escalating retail prices to consumers, is once and for all ended. We have never, and do not now feel that this achievement should be at the expense of the ultimate consumers, and especially at the expense for basic staple foods and their products, of the lower income consumers who cannot make choices to maintain a minimum nutritious diet. We believe that we have documented our position adequately in both statements.

Our position was reaffirmed at our 25th anniversary meeting in Fresno, June 12.

At issue is the question of the applicability of the sale of milling certificates to finance a large portion of the farmers' share of the consumer dollar. We are making a comprehensive study of the certificate plan and you shall hear from us further on this when our study is completed.

Thank you for entering this letter, along with our statements in the record June 19.

Sincerely,

Mrs. GRACE McDONALD,
Executive Secretary,
California Farm Research and Legislative Committee.

SANTA CLARA, CALIF., April 26, 1965.

Hon. HAROLD D. COOLEY,
Chairman, Committee on Agriculture,
House Office Building,
Washington, D.C.

MR. CHAIRMAN AND MEMBERS OF THE HOUSE COMMITTEE ON AGRICULTURE: On April 6, 1965, our committee wrote you a short, preliminary statement expressing

our opposition to such sections of H.R. 7097 as would delegate authority for a "passthrough" to cover adequate returns to farm producers, in full or in part to consumers at the retail level, stating that we felt this constituted shifting responsibility from the middleman for his part in the spread between farmer and consumer.

Since, at that time we were not in receipt of the text of H.R. 7097, and therefore were not in position to evaluate the provisions of the overall measure, we asked that the record be kept open, not only to document our position on the proposed "passthrough," but to express our views on those portions of the "Food and Agriculture Act of 1965" pertaining more directly to enabling the commercial family-type farmer to receive a net income for his year's investment, labor, and skill, more nearly comparable to that enjoyed by nonfarm business in similar investment brackets.

Your reply, dated April 12, 1965, enclosed a copy of H.R. 7097 and stated: "I shall be pleased to have an expression from your organization to be embodied in our committee hearings * * *." Thank you for this privilege.

It is our understanding that there will be numerous amendments to H.R. 7097, such as the inclusion of H.R. 7481, introduced by Representative Joseph Y. Resnick, Member of Congress, 28th District, New York, providing for a nationwide marketing order for table eggs, which we support as imperative; and probably additional amendments proposed by farm organizations such as the National Farmers Union.

Also, we have a substantial number of ricegrowers who are members of our committee or cooperating with us in many fields, and we have asked them to give us their views on these portions of H.R. 7097 relating specifically to that commodity. Therefore, we are reserving any expression at this time on title III—rice, except for our position on the "passthrough."

We have just received a copy of your committee print, "Food Costs—Farm Prices," an impressive document which throws additional light on many phases of the farm problem hitherto unavailable in one concise compilation.

We note that you have sent this publication to members of the National Commission on Food Marketing and its staff. I am sure that the material so ably documented will be of great value to the Commission when it opens hearings on "reasons for the increase in retail food margins" in Washington, D.C., May 5–8.

The fact that the Commission is studying the marketing system for bakery and cereal products seems to strengthen our position that it would be prejudicing the findings of this investigation to authorize a "passthrough" on wheat and rice at this time.

The facts, historically detailed in your study: "Food Costs—Farm Prices" showing that "retail food prices have increased 31 percent in the past 17 years," while "prices received by farmers have declined 15 percent," should dispel the misconceptions on the part of too many uninformed persons that the average commercial farmer has "waxed fat at the Federal tax trough."

The breakdown of tax dollars allocated by the Federal Government to so-called farm programs, showing the amount actually spent on farm price supports and what is allocated for consumer, business, and foreign aid, on page 19 of your report, should be widely circulated. It is high time that we place these programs where they belong—as public benefits: those dealing with foreign relations and defense; sale of surplus agricultural commodities for foreign currencies under title I of Public Law 480; emergency famine relief to friendly peoples under title II of Public Law 480; domestic food distribution including the food stamp plan, the school lunch and special milk programs.

When that is understood we shall be free to deal with the basic farm problems on their own merits with full parity of income for commercial farm families as the ultimate goal. Per capita net farm income, at the shameful "record high" of \$3,642 average can certainly no longer be tolerated. (P. 21 of your report.)

An average, of course, means that the under \$3,642 per year families are definitely underprivileged. How many of these families are included in the 20 percent of our national population with deficient diets, as described by Leon Keyserling in his study "Agriculture and the Public Interest," is difficult to ascertain.

"It is true" he says, "that some farm families today grow some of the food which they consume, instead of purchasing it with dollar income. Yet the farm family has to purchase much of its food if it wants the varied and attractive diets which others also desire."

"The farm family no longer builds its own house, nor weaves its own clothes; it has to pay as much as others for medical care, education, insurance, automobiles (and motor vehicles are essential to the operation of any farm business; my comment); household durables, travel, and vacations. The frequently heard statement that the cost of living is very much lower on the farm is really an observation that the level of living is very much lower on the farm * * *." What is true for farmers generally, is doubly true for those who grow specialized commodities, where everything the family eats, with the exception of fruits or vegetables or livestock raised, must be purchased at the constantly escalating retail price. Obviously, one cannot eat cotton or feed grains or sugarbeets.

Lest the above statement may be misinterpreted, let me state, for the record, that our committee has, since its inception in 1941, supported every constructive measure for upgrading the incomes and the diet of the underprivileged millions of our people—farmers and nonfarmers.

We are in agreement with the objectives of the rural areas development program and its emphasis on making rural America the kind of place enjoying economic opportunities, housing, roads, schools, and living standards which our national wealth and technology can surely provide.

We opposed ending the food stamp plan program in 1943 and have vigorously campaigned for its reinstitution and expansion, including a study made by Dr. Bernice Madison, professor of social work, San Francisco State College, based on the experience of 27 California county welfare directors, October 1957–July 1958, entitled: "The Impact of the 1957–58 Inflation-Recession on California's Public Assistance Recipients."

The conclusion of the study was that the use of the food stamp plan would be of considerable benefit in upgrading the food budgets of such recipients. In April 1958, California had a total of 617,112 of such recipients. The figure today is close to 1 million, in addition to persons of low income eligible for food stamps under present legislation.

In his statement supporting H.R. 7097 before your committee on April 6, 1965, Secretary of Agriculture Orville Freeman used a figure of \$1,400 a year spent by an average family of four for food which he stated was about 19 percent of total spendable income. This would make the average annual income of a family of four about \$7,000 a year. Mr. Freeman used these averages to justify his support for the President's proposal to transfer a large portion of essential parity payments to wheat and rice growers "to the marketplace."

The facts of life are that as spendable income increases, the percentage spent for food decreases. And since at least one-fifth of the people in this Nation—some 38 million individuals—by President Johnson's own message on poverty, delivered to the Congress March 16, 1964—fall in the "below \$3,000 family income class"—it is necessary to estimate "spendable income for food" for these families, not at 19 percent, but more nearly at 50 percent.

The \$3,000 a year approximates total allotments by the San Francisco Department of Social Welfare for an average family of four. This average is made up of one adult; one girl or boy between the ages of 13 and 17; one child between the ages of 7 and 12; and one infant, as follows: Total living allotment, \$2,988 per year; food allotment, \$1,380 per year (48 percent).

Welfare department administrators feel that an additional \$25 a month is actually required to achieve a minimum adequate diet. This they hope to achieve, if possible, through enabling legislation at the State level so that every California county could be made eligible for this program. But Federal appropriations would provide for only four "average" counties in 1965 and no more than seven in 1966. This leaves out recipients in 51 counties.

Sidney Margolius, quoting USDA home economics data, states in the April 22, 1965, issue of the Machinist:

"Most moderate-income families of four or five persons, with after-tax incomes of \$400 to \$600 a month, need to keep their food bills within 25 to 30 percent of income if they are to have enough money for other needs * * * Larger families," Margolius states, "have to allot a bigger slice of income for food."

Using USDA's own figures, therefore, most moderate-income families use from 25 to 30 percent of their spendable budgets on food, rather than the 19 percent referred to by Secretary Freeman. And, Margolius adds: "not for soaps, paper goods, beer or other nonfood items usually bought at supermarkets * * *"

And it appears doubtful whether this percentage could be maintained under the proposed "pass through" for wheat and rice products.

"The greatest divergence between farm and retail prices in the 17-year period, 1947-49 and 1965, has occurred between the farm prices of wheat and the retail prices of bread, other bakery, and cereal products" the report on "Food Costs—Farm Prices" states on page 6.

"The farm price of wheat" it continues, "including marketing certificates after July 1, 1964, had dropped 9 percent, and the retail prices of cereals and bakery products have increased 45 percent * * *."

"When city families purchase bread or prepared cereal products, they pay mostly for processing, packaging, and distributing the product; very little goes to the farmer for raw materials. For example * * * the pound loaf of bread that sold at retail for an average price of 20.7 cents in 1964 contained wheat having a farm value of 2.5 cents * * *."

As we understand the proposed "pass through" plan, millers would purchase wheat certificates for that portion of the crop destined for domestic consumption at a cost of \$1.25 per bushel (60 pounds). An additional \$1.25 per bushel would reach the wheat producer as price support, making a total price to the producer of \$2.50 per bushel for wheat sold for domestic use. (This is only 45 percent of U.S. wheat production.)

The miller would be expected to regain his extra cost from his first customer. Each processor or handler down the line would do likewise, until the ultimate retail consumer is reached. She would pay an estimated average increase of 1 cent retail for a pound of bread (too large a portion of which is now air).

Hopefully, the law of supply and demand would regulate each "take" in this process. Viewing the 17-year history of the spread between the producer of wheat and the consumer of bread with its 45-percent escalation, we are not so hopeful. We prefer to await the findings of the National Commission on Food Marketing to determine if there are undue inequities in the price spread of this and other commodities before supporting any "pass through," especially for commodities which form the staples in the diets of our lower income families, including lower income farm families.

We maintain that all increases in the retail cost of food are bound to restrict the variety and adequacy of food purchased by families on an inflexible budget. With increases in the cost of staples, meat, milk, fruits, and vegetables will suffer.

It is comfortable to feel that the average \$7,000 a year family, by accepting the increased cost of wheat and rice products, is contributing to the financing of the badly needed antipoverty program. However, the greatest losers will be the moderate-income families; the unemployed who have exhausted their benefits; those on public assistance whose food budgets are circumscribed by boards of supervisors on the basis of available tax dollars.

In evaluating the adequacy of H.R. 7097 to meet the needs of the majority of California's 65,000 commercial specialty farm commodity producers, it is necessary to point out that the bill in its present form applies only to wheat, rice, and wool.

In regard to wheat, California production is less than 1 percent of national volume. Diversion of wheat acreage into feed grains would have even less impact.

For rice, where California produces 22 percent of the national crop, diversion would be almost impossible.

The proposed support price for compliance with acreage adjustments or diversion for both rice and wheat is left to the discretion of the Secretary of Agriculture with a 65-percent of parity floor.

California wool growers are satisfied with provisions of present legislation, which President Johnson himself said was working well in his January 4 message to Congress. They feel that the amendments to the National Wool Act of 1954 embodied in H.R. 7097 will disrupt their current program and consider the proposed extension from the current March 31, 1966, to December 31, 1967, much too short a period for planning and stability.

A bill, S. 994, introduced by 44 Senators, including Senators Thomas H. Kuchel and George Murphy, of California, meets with their requirements. A 4-year extension of the present act would doubtless meet with their approval.

California ranks third in national wool production. Our committee feels that when a national commodity association, as well as our own California association, make their position known on the basis of 10 years of experience, the USDA should give this position consideration. We favor enactment of S. 994 rather than the amendments in H.R. 7097.

The essentials for an adequate national farm program should be to provide an annual net income for producers of all commodities on a comparable basis. Those commodities which are storable, such as cotton, require one type of legislation; sugarbeets, another. Special provisions to overcome gross inequities in supports for class II and III milk, including changes in purchases of class I milk by the military where States have their own controls, are long overdue.

For commodities such as eggs and poultry, enabling legislation as proposed in H.R. 7481 is necessary.

Regardless of the formula used, the end result should assure the commercial farm family a net income of no less than \$5,000 an average which would lift the present \$3,642 referred to in the House committee report, 40 percent. In short, the average farm net income in this United States has been 40 percent less than the very moderate \$5,000 sum we propose. This is hardly affluence, but it should enable a farm family to enjoy a standard of living and working conditions in line with today's rich economic potential.

A support price to insure this potential may also require marketing restrictions. In such cases we propose that any restrictions be so placed as to exempt the smaller investment operators who must utilize full production capacity to survive.

From the experience of 25 years, we expect many months of hearings and testimony with varied viewpoints before H.R. 7097 reaches the floor for vote. Such deliberations are in the best traditions of our democracy. Following further consultation with our officers and commodity directors, we shall offer you our final appraisal.

Sincerely,

Mrs. GRACE McDONALD,
Executive Secretary,
California Farm Research and Legislative Committee.

SANTA CLARA, CALIF., May 21, 1965.

Hon. HAROLD D. COOLEY,
Chairman, Committee on Agriculture,
House Office Building, Washington, D.C.:

Mr. Chairman and members of the House Committee on Agriculture, in submitting our position in respect to various aspects of H.R. 7097 in a statement to your committee dated April 26, 1965, we reserved specific reference to "Title III—Rice," except for our opposition to the "pass through" of the cost of certificates to the consumer at the retail level, until we could consult with California rice growers who are members of our committee or who are cooperating with us in many fields.

Mr. Chairman, you graciously accepted our proposal, and we are now in position to speak positively on the question.

We have reviewed in considerable detail the testimony submitted to your committee on May 11, 1965, from the following officials of the Rice Growers Association of California: Joseph L. Alioto, president; Glen R. Harris, director; Lorris Lauppe, director; and Adam Richter, director.

We note that in his testimony, Mr. Harris states that "the consumption of table rice is not evenly spread among consumers, but is concentrated largely in the low-income segment of the people of certain areas * * *." He cites the people of Hawaii and Puerto Rico especially. The volume of table rice consumed by these groups and the effect of the proposed increased costs to such low-income families, fully documents our position against placing the burden of the "pass through" on those least able to pay.

His conclusion that California's rice industry "will be demoralized and domestic consumption will be lost" should the proposals for rice contained in title III of H.R. 7097 be enacted, coincides with that of members of our committee who grow rice.

The statement by Mr. Alioto that "the cost of foreign aid programs should not rightfully be charged against agricultural appropriations, but instead, should be included in our foreign aid budget," sustains our position on this subject, as well as his conclusion that placing this burden upon the shoulders of segments of our population for whom rice is the most basic food and who are least able to endure the additional cost, is "basically unfair," and this is equally true for price supports.

As we stated in our April 26 testimony, we know of no way to determine what the increased cost of a commodity whose escalation depends on sale of certificates to millers can possibly be.

We think that we proved that taking an "average" percentage of an "average" national income was completely unrealistic. Mr. Alioto documents this "average" of 5 cents per pound of rice at the mill level for California milled rice, which he says is from 9 and 10 cents per pound, and states that the proposed measure would result in an increase of over 50 percent in f.o.b. mill prices. He then translates this increase to domestic consumers as approximately 20 percent representing normal markups in the various channels of trade.

When this result is applied to the 140-pound per capita consumption in Puerto Rico or 100 pounds in Hawaii, the effect upon those least able to pay is all too clear. The fact that petitions against title III bore 75,000 signatures speaks for itself. California is also a heavy rice consuming State. So are many Southern States and New York City.

It is also clear that California ricegrowers who sell nearly 60 percent of their production on the domestic market, would feel the rebound from reduced consumption. Entire rural communities would be affected along with business and employees in related warehousing, processing and transportation industries.

Future acreage allotments under title III, based on national average yields, would greatly reduce acreages of efficient California growers since their average yields are nearly 50 hundredweight per acre, far in excess of the national average.

We are convinced that the proposals in title III would result in lower rather than higher incomes for ricegrowers, either through reduced domestic consumption, reduced farm prices, or buildups in CCC stocks and carryover, again further reducing acreage allotments. Thus the assumed goal of the Food and Agriculture Act of 1965 would be self-defeating.

We are not discussing at this point why rice acreage and production has assumed its pivotal place in California's agricultural economy. What we are saying is that this is the situation today and that it is extremely difficult, if not impossible to switch from rice culture and its obligations of carrying expensive equipment and irrigation practices, to other types of farming on any quickly rational basis.

Our conclusion, therefore, is to support the position of the California Rice Growers Association along the lines indicated in this supplementary statement, which means, in essence, that we oppose enactment of title III of H.R. 7097 as presently written.

Sincerely,

Mrs. GRACE McDONALD,

Executive Secretary,

California Farm Research and Legislative Committee.

The CHAIRMAN. The next and last witness, Mr. Hellekson; will you proceed?

**STATEMENT OF S. H. HELLEKSON, ASSISTANT GENERAL MANAGER,
CELLULOSE AND PROTEIN PRODUCTS DEPARTMENT, HERCULES
POWDER CO., WILMINGTON, DEL.**

Mr. HELLEKSON. Mr. Chairman, and members of the Senate Committee on Agriculture and Forestry. Thank you for the opportunity to appear before you.

My name is S. H. Hellekson, assistant general manager of the Cellulose and Protein Products Department of the Hercules Powder Co.

I am speaking on behalf of the five industrial processors of wheat flour making up the wheat starch-gluten industry, with plants located at Harbor Beach, Mich. (Hercules Powder Co.); Columbus, Ohio (National Industrial Products Co.); Atchison, Kans. (Midwest Solvents Co., Inc.); Keokuk, Iowa (General Mills, Inc.); and Colorado Springs, Colo. (Wheat Products Co., Inc.).

My remarks are directed solely to the portion of the proposed legislation which defines "food products" for wheat marketing certificate purposes (sec. 104(b) of S. 1702). The definition of "food products" that your committee is considering will make it possible for the wheat starch-gluten industry to survive; reversion to the definition contained in the 1964 law would destroy it.

The wheat starch-gluten industry is the only significant user of wheat flour for industrial processing and has been in existence since the beginning of the century.

This industry utilizes a type of wheat flour called "flour clears" in a wet milling process (washing, rather than grinding). From flour clears, the industry obtains two primary product lines: protein and starch.

Senator JORDAN. What is clears?

Mr. HELLEKSON. Flour clears is a low-grade wheat flour.

Senator JORDAN. The bran and such has been taken out of it?

Mr. HELLEKSON. Yes, sir. It is the coproduct of patent flour in a milling operation equivalent to a straight flour being separated into two streams: patent flour and flour clears.

Senator JORDAN. Thank you.

Mr. HELLEKSON. Approximate yields from flour clears are 15 percent protein (which is further processed and marketed as vital wheat gluten) and, generally, in excess of 55 percent starch (which is also further processed). Vital wheat gluten, and a portion of the starch, end up in human food; the balance of the industry's products go into strictly nonfood uses.

Under the 1964 law, "flour" (including flour clears) is defined as a "food product," regardless of end use. This definition discriminates against the wheat starch-gluten industry.

Because of this definition, on all flour sold to the wheat starch-gluten industry a miller must purchase a domestic wheat marketing certificate (today at a cost of 70 cents per bushel) regardless of the nonfood end products made from the flour. To recover his costs, the miller must pass this full certificate cost along in the flour price.

Other industrial users of wheat flour can purchase uncertificated flour under the 1964 law. In contrast to the processing of wheat flour by the wheat starch-gluten industry, these other industrial users use the wheat flour itself, as an ingredient, without further processing. They can, under Government regulations, purchase denatured flour that is milled uncertificated wheat at a substantially lower price. In addition, existing law does not require a certificate for wheat that is processed directly into a nonhuman food product without going through the flour stage.

The CHAIRMAN. Do they make anything else with this uncertificated wheat?

Mr. HELLEKSON. Yes.

The CHAIRMAN. What happens to it?

Mr. HELLEKSON. The largest use, Mr. Chairman, for flour made from uncertificated wheat is an extension of rosins used in plywood manufacture. It is used as a glue extender.

The CHAIRMAN. But it is all for manufactured purposes, not for food?

Mr. HELLEKSON. That is correct, and it is denatured.

Senator JORDAN. Can they make that into a waterproof, or is that the glue used in plywood?

Mr. HELLEKSON. This is interior plywood, I believe. I am not an expert on the subject.

Senator JORDAN. There are two grades.

Mr. HELLEKSON. Interior and exterior. They use it to extend the urea-formaldehyde resin adhesive.

Senator HOLLAND. What is the process by which it is denatured?

Mr. HELLEKSON. I understand the most common method today is to include on the order of 5 percent ground walnut shells in order to make it supposedly nonfit for human consumption.

Senator HOLLAND. It is made inedible though it is not subjected to any chemical processes.

Mr. HELLEKSON. No. It is an admixture.

An example of this is the grinding of wheat for use as an ingredient in pet foods.

The effect of Government programs on the price of flour clears already has caused this industry to lose a substantial part of its gluten business to imports, and also to lose a substantial part of its wheat starch markets, principally to cornstarch. Domestic markets for vital wheat gluten, the sole outlet for the protein fraction produced by the wheat starch-gluten industry, have been eroded by imports of vital wheat gluten to the point where these imports have taken over one-fourth of the entire domestic market of about 30 million pounds. (The size of this domestic market has not increased despite lower vital wheat gluten prices.)

The size of the vital wheat gluten market places a ceiling on the starch production of the starch-gluten industry. The industry does not produce wheat starch unless there is an outlet for the coproduct gluten. Wheat starch markets have shrunk to only those markets where wheat starch's unique properties can justify a premium price over other starches (as in laundry starch and wallpaper paste). While wheat starch production (for starch and starch derivatives) has decreased to less than 80 million pounds per year, recent growth in corn starch production has exceeded 5 percent per year and that industry now produces over 6.7 billion pounds per year of cornstarch and cornstarch derivatives.

The wheat starch-gluten industry's present situation is very serious. Hercules Powder Co., for example, is losing money on its Harbor Beach, Mich., plant, with current raw material costs, based on the 70-cent marketing certificate. We have kept this plant in operation because of the impact a shutdown would have on the community and because of hope that some remedy would be found to correct the inequities we have faced.

S. 1702 would partially correct the discrimination against the wheat starch-gluten industry by excluding, from the definition of "food products" for marketing certificate purposes, the nonfood products made by this industry.

The CHAIRMAN. Is there anything further that could be done in order to alleviate the situation?

Mr. HELLEKSON. Total exemption would certainly be a great benefit, if I understand your question, yes.

The CHAIRMAN. I say if it can be shown that this is not used for food?

Mr. HELLEKSON. Yes.

The CHAIRMAN. It strikes me that the exemption ought to go the whole way so that you could properly compete with corn and other products that may be used to manufacture the same products you make.

Mr. HELLEKSON. In nonhuman food?

The CHAIRMAN. Yes.

Mr. HELLEKSON. Yes, the language of S. 1702 does this. It recognizes and prorates supposedly.

The CHAIRMAN. You are satisfied with it then?

Mr. HELLEKSON. That will give us relief on the nonhuman food portion, yes.

Without such a definition of "food products," this industry would be forced to absorb the domestic certificate cost as to all of its end-products, including nonfood, and the increase in certificate cost to bring wheat to parity would add an additional \$1.15 per hundred pounds to the already inflated cost of flour clears sold to this industry. Those who use unprocessed flour directly in nonfood products, would continue to be able to buy uncertificated flour, to the extent they have in the past; but the wheat starch-gluten industry—constituting the only domestic industrial processors of wheat flour—would be singled out for destruction.

Extinction of this historical industry would have the following effects:

(1) It would come at a time when Congress is appropriating large sums for research to find new industrial uses for wheat. (Not only are products of the wheat starch-gluten industry an existing industrial usage but its members have spent large sums on new product research);

The CHAIRMAN. How much wheat do you use per year?

Mr. HELLEKSON. In bushels it would be of the order of 4 to 5 million bushels of grain equivalent to the flour clears used by our industry.

The CHAIRMAN. That is at all your plants?

Mr. HELLEKSON. For all the plants of the whole starch-gluten industry, yes.

(2) It would mean (if the industry is destroyed) that the Government could not collect any certificate payments on the food products presently made by this industry;

(3) It would make domestic users of gluten solely dependent upon foreign imports. The entire gluten market would be replaced by these imports, thus contributing to the dollar drain and the Government's balance-of-payments problem; and

(4) It would cause serious unemployment in several communities, at least one of which, today, is already listed as a distress area.

Therefore, it is appropriate that the proposed wheat legislation (S. 1702, sec. 104(b)) does not require certificated flour for use in making nonfood products. This is a great improvement over the current law and we support it. It incorporates the Department of Agriculture's recommendations for change in the current law, and also expresses the views of the chairmen of both the Senate and House Agriculture Committees in statements made to Congress (annex A).

There are strong reasons for going further and not requiring any marketing certificate on flour clears processed by the wheat starch-gluten industry, even though they may, after substantial alteration, go

into food. These reasons are particularly strong where vital wheat gluten, a food product, is involved, because of the adverse effect imports have on domestic gluten production.

As I have stated, however, the wheat starch-gluten industry supports section 104(b) of S. 1702, even though it proves only a partial exemption, limited to the nonfood products made by this industry from wheat flour. The wheat starch-gluten industry also would support a limitation as to the type of wheat flour eligible for certificate exemption, such as the limitation to "flour clears" which was recommended by the House of Representatives' Subcommittee on Wheat (H.R. 8629). ("Flour clears" is the type of flour commonly used for industrial purposes.) The wheat starch-gluten industry does not object to this or any other reasonable limitation, as long as (1) an adequate supply of "flour clears" is available, and (2) the flour clears going into the nonfood products of this industry are not treated as "food products" for certificate purposes.

We strongly urge your favorable action. With such action, this historical industry can survive, to the benefit of agriculture and the American public.

Thank you again for the privilege of speaking on this subject. I will be glad to attempt to answer any questions that you may care to ask.

(The supplement to Mr. Hellekson's statement follows:)

ANNEX A

[From Congressional Record, House, June 21, 1962]

Mr. O'HARA of Michigan. Mr. Chairman, I move to strike out the last word.

Mr. Chairman, I will take only a minute. I have a question I would like to propound to the chairman of the committee with regard to the requirement of section 423 of the bill that—

"All persons engaged in the processing of wheat into food products composed wholly or partly of wheat shall, prior to marketing any such product for human food in the United States, acquire marketing certificates equivalent to the number of bushels of wheat contained in such products."

Most wheat is processed into flour which is either used as human food in this country or is exported. However, not all flour is so used. A substantial amount of flour is used in industrial processes in this country. The end product of the industrial process may or may not consist of food products. In one particular process a portion of the resultant product is used for food purposes and the remainder is not. In addition, a certain amount of the flour is lost in processing.

I would like to know if marketing certificates will be required for all of the wheat milled into flour used in such industrial processes in spite of the fact that all or part of such wheat is finally used for nonfood purposes.

Mr. COOLEY. The Department of Agriculture has assured the chairman of the Committee on Agriculture that in such cases a price adjustment will be arranged either with the millers or the industrial processors of flour in recognition of the fact that not all of the end product is to be used for human food purposes.

Anticipating the gentleman's observations and questions I communicated with the Department of Agriculture.

[From Congressional Record, Senate, Aug. 21, 1962]

Mr. HART. Mr. President, I would like to ask a question in regard to section 379(b) (i) which can be found on page 83 of the bill and reads, as follows:

"All persons engaged in the processing of wheat into food products composed wholly or partly of wheat shall, prior to marketing any such product for human food in the United States, acquire marketing certificates equivalent to the number of bushels of wheat contained in such product."

Most wheat used in this country is processed into flour, but not all flour is used as human food in this country. A substantial portion of the flour is used in

industrial processing. The end product of the industrial process may or may not consist of food products. In one particular process a portion of the resultant product is used for food purposes and the remainder is not. In addition, a certain amount of the flour is lost in processing.

I would like to know if marketing certificates will be required for all of the wheat milled into flour used in such industrial processes in spite of the fact that all or part of such wheat is finally used for nonfood purposes, or lost in processing.

Mr. ELLENDER. Mr. President, this particular question was brought to my attention by the distinguished Senator from Michigan Mr. Hart some time ago and I have requested a clarification from the Department of Agriculture. I have been assured by the Department that in such cases a price adjustment will be arranged either with the millers or the industrial processors of flour in recognition of the fact that not all of the end product is to be used for human food purposes.

Mr. HART. I thank the Senator.

The CHAIRMAN. Any questions?

Senator BOGGS. I have a couple of questions, Mr. Chairman.

Mr. Hellekson, although I read it I did not get to hear all of the testimony of Mr. Horning of the National Association of Wheat Growers. I don't know whether you were in the room at the time or not.

Mr. HELLEKSON. I heard part of it; yes.

Senator BOGGS. In reading it, I noticed he devoted about a page and a half to this subject.

Mr. HELLEKSON. Yes.

Senator BOGGS. As I read his testimony he is in complete agreement with your position.

Mr. HELLEKSON. That is my understanding.

Senator BOGGS. I wanted to clear up again in my own mind, as we have the bill before us, the question of whether the language in the proposed bill meets your recommendations?

Mr. HELLEKSON. The language in S. 1702 meets our recommendations and has our support.

Senator BOGGS. I was wondering if you had any figures on how many people would be put out of work if the wheat starch-gluten industry is forced out of business. What effect would that have also, if you have any information available, on the balance-of-payments situation?

Mr. HELLEKSON. Senator Boggs, I can only speak here for my own company, which is Hercules, and the operation at Harbor Beach, Mich.

We are the only industry in this area. We employ a little over 300 people. Harbor Beach is a small community. If we are forced out of the wet milling of wheat flour, we cannot continue the operation of that plant. We would have to shut it down. So, in our particular instance it would throw out of work on the order of 300 people.

Senator BOGGS. And if the whole industry went out, the United States would have to rely on imports?

Mr. HELLEKSON. If the whole industry went out, the wheat starch market would probably be taken over by the corn starch industry. The vital wheat gluten market would be solely dependent on imports; this is correct. Canada and Australia would have to supply the bakers' need for vital wheat gluten.

Senator BOGGS. Did I understand you to say that you simply want the starch portion of your industry treated the same way as industries which use wheat directly for products not consumed by humans?

Mr. HELLEKSON. Our request is even narrower than that. We are requesting that the starch portion or any portion that we make from flour clears that goes into nonhuman food be exempted from certificate requirements.

At the present time we have no market for the gluten portion other than food. The starch portion is split partially to food, partially to nonfood. So it is a portion of the starch fraction for which we would expect certificate exemption on under the wording of S. 1702.

Senator BOGGS. And there is a precedent for that in that products that go into nonhuman consumption are already exempted?

Mr. HELLEKSON. Yes, sir. We have a two-price system today, and I think we are the only industrial flour user that is paying a certificate on wheat going into nonfood end uses.

Senator BOGGS. Thank you very much.

The CHAIRMAN. Any further questions?

If not, we thank you.

The committee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 4:50 o'clock p.m., the committee recessed to reconvene at 10 a.m., Tuesday, June 22, 1965.)

FOOD AND AGRICULTURE ACT OF 1965

TUESDAY, JUNE 22, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 324, Old Senate Office Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender, Holland, McGovern, Montoya, Aiken, Young of North Dakota, and Cooper.

The CHAIRMAN. The committee will please come to order.

The first witness is Senator Moss. Others will come in.

Senator Moss. Thank you, Mr. Chairman.

The CHAIRMAN. We have only 15 witnesses for today.

STATEMENT OF HON. FRANK E. MOSS, A U.S. SENATOR FROM THE STATE OF UTAH

Senator Moss. Well, I appreciate being called and I will try to be very brief, Mr. Chairman.

WOOL

I have a printed copy of my statement and if it is satisfactory with the chairman I will try to condense it in my oral presentation.

The CHAIRMAN. Well, the whole statement will be put in the record at this point and you may proceed to highlight it.

(Senator Moss' prepared statement is as follows:)

Mr. Chairman and members of the committee, I am here to express opposition to title IV of S. 1702, which would extend the wool incentive payments program, but which would also inaugurate a system of graduated payments and remove the annual production goal. I ask that the committee recommend instead a simple extension of the program as it now stands.

I will not take the time to comment on the other sections of this bill, only to say that I wish you well with what I know is one of the most arduous tasks in the Congress. I will be awaiting with interest the decisions you make and the report you issue. I sincerely hope you can find formulas which will make it possible for Americans to continue to enjoy an abundance of food and fiber at reasonable prices, and at the same time will assure to the efficient farmer—and particularly the small farmer—adequate financial returns and a parity of opportunity with the rest of America. I well realize that is not an easy goal to achieve.

My statement today is made in behalf of an especially important segment of agriculture in Utah—the sheep industry. The topography of my State makes the production of wool and lambs vital to our economy. Production of shorn wool in Utah this past year totaled 11,340,000 pounds. This means millions of dollars in income to the State, and hundreds of jobs. The economic benefits are felt in dozens of communities.

Without exception, the sheepmen to whom I have talked tell me they could not continue in business without the incentive payments program. Also, without exception, all of them are opposed to the system of graduated payments included in this bill. They consider it unfair, economically unsound, and complicated to administer.

Neither do our Utah sheepmen want to see the annual production goal of 300 million pounds removed from the act. They feel that Congress set this goal in the first place to give the act some meaning and continuity, especially in the light of our defense needs. Without it, the Secretary of Agriculture could conceivably terminate the program at any time.

Mr. Chairman, I do not understand the reasoning in the Department of Agriculture which has brought forth the changes recommended in this bill. The present National Wool Act was passed in 1954. It was chosen in lieu of a tariff increase on wool which was recommended by the Tariff Commission. The tariff on wool has not been increased since that time and the chances of duty increases are probably more remote today than they were at the inception of the Wool Act.

The National Wool Act has proved itself over and over again. It has worked well now for 11 years. It is a sound program and sheep producers in Utah and other States want to see it continued there.

Earlier in this session I joined with 43 other Members of the Senate in introducing S. 994, which provides for a simple extension of the present program. It would make no changes in the program, and it would extend it until 1972. Since sheep raising is a long-term enterprise, which requires much planning and advance financing, the program should be extended for a fair period of time. The 1-year extension provided for in this bill is not a satisfactory extension, even if the other recommended changes were not made. It would not lend economic stability or encourage production.

The argument that the present program benefits too many large growers is not a valid one. Consider the situation in Utah. Out of 4,595 of the largest sheep growers, only 25 could be considered "large producers." Twenty of these, if the present law is extended, would receive incentive payments of from \$20,000 to \$30,000. Four would receive from \$30,000 to \$40,000 and one from \$40,000 to \$50,000. Five hundred and fifty-eight would receive less than \$10,000 and 845 less than \$5,000—all others would receive from \$3,000 down. These figures are based on 1964 production and the 1965 figures would be lower because of the better price on wool.

I want to point out also that even the largest of these producers has a very small net margin, and would not be able to continue in business if the incentive payment is materially reduced.

Mr. Chairman, the sheep industry is of consequence not only to Utah but to all of the Western and Southwestern States; in fact, wool is grown in every State of the Union. We must continue this industry. Lambs are in short supply and wool is a strategic national commodity.

I ask that the committee strike from the bill (S. 1702) the provisions of title IV, and substitute instead the provisions of S. 994, which provides for a simple extension of the wool incentive program as now written.

Senator Moss. Mr. Chairman, I am here to express opposition to title IV of S. 1702, which would extend the wool incentive payments program, but which would also inaugurate a system of graduated payments and remove the annual production goal. I ask and recommend that the committee recommend instead a simple extension of the program as it now stands.

This statement is made because it is especially important to a segment of agriculture in Utah, the sheep industry. Production of shorn wool in Utah this last year totaled 11,340,000 pounds and this means billions of dollars in income in the State, and hundreds of jobs.

Without exception, the sheepmen to whom I have talked tell me they could not continue in business without the incentive payments program. Also, without exception, all of them are opposed to the system of graduated payments included in this bill. They consider it unfair, economically unsound, and complicated to administer.

Particularly, the members of the wool industry who depend on wool for their livelihood are the ones who would be penalized by receiving the lesser support payment, and ones who are only partially in the wool business and have other sources of income and the smaller flocks would receive the larger incentive payment.

Neither do our Utah sheepmen want to see the annual production goal of 300 million pounds removed from the act. They feel that Congress set this goal in the first place to give the act some meaning and continuity, especially in the light of our defense needs. Without it, the Secretary of Agriculture could conceivably terminate the program at any time.

Mr. Chairman, I do not understand the reasoning in the Department of Agriculture which has brought forth the changes recommended in this bill. The present National Wool Act was passed in 1954. It was chosen in lieu of a tariff increase on wool which was recommended by the Tariff Commission. The tariff on wool has not been increased since that time and the chances of duty increases are probably more remote today than they were at the inception of the Wool Act.

The National Wool Act has proved itself over and over again. It has worked well now for 11 years. It is a sound program and sheep producers in Utah and other States want to see it continued there.

Earlier in this session I joined with 43 other Members of the Senate in introducing S. 994, which provides for a simple extension of the present program. It would make no changes in the program, and it would extend it until 1972. Since sheep raising is a long-term enterprise, which requires much planning and advance financing, the program should be extended for a fair period of time. The 1-year extension provided for in this bill is not a satisfactory extension, even if the other recommended changes were not made. It would not lend economic stability or encourage production.

The argument that the present program benefits too many large growers is not a valid one. Consider the situation in Utah. Out of 4,595 of the largest sheep growers, only 25 could be considered "large producers." Twenty of these, if the present law is extended, would receive incentive payments of from \$20,000 to \$30,000. Four would receive from \$30,000 to \$40,000 and one from \$40,000 to \$50,000. Five hundred and fifty-eight would receive less than \$10,000 and 845 less than \$5,000—all others would receive from \$3,000 down. These figures are based on 1964 production and the 1965 figures would be lower because of the better price on wool.

I want to point out also that even the largest of these producers has a very small net margin, and would not be able to continue in business if the incentive payment is materially reduced.

Mr. Chairman, the sheep industry is of consequence not only to Utah but to all of the Western and Southwestern States; in fact, wool is grown in every State of the Union. We must continue this industry. Lambs are in short supply and wool is a strategic national commodity.

I ask the committee to strike from the bill provisions of title IV and substitute instead the provisions of S. 994, which provides for a simple extension of the wool incentive program as now written.

We think the present program is working very effectively, Mr. Chairman, and we think an extension of that is the proper thing.

The CHAIRMAN. One thing that is disappointing is that the 300 million pounds has not been reached yet.

Senator Moss. But I think it is realistic to have that as a goal and I think we should continue.

The CHAIRMAN. Thank you.

Senator Moss. Thank you.

The CHAIRMAN. Senator McGee?

Senator McGEE. Thank you, Mr. Chairman. I appreciate this opportunity, too.

The CHAIRMAN. Senator Moss, would you have any plan in mind so as to assist the smaller grower? I believe that is the reason the Secretary has suggested this proposal, because similar efforts are being made for the rice grower and for the cotton grower.

Senator Moss. Well, the smaller grower may be marginal, a marginal farmer in many respects, but as I tried to point out, I think very often this is more just a part of his income and a sideline, whereas by reducing the incentive payment for the large fellow who depends entirely on wool, you probably would drive him out of business.

The CHAIRMAN. Well, if a grower is getting \$20,000 to \$30,000 payments, I don't think you can drive him out of business.

Senator Moss. There are some who get that much, but they have a tremendous investment in equipment and their flocks.

The CHAIRMAN. At any rate, I hope to obtain statistics showing the number who are engaged in the production of wool in the various States, and I presume that I can obtain that from either the Department or witnesses who testify on the bill today.

Senator Moss. Yes, sir.

The CHAIRMAN. Thank you very much.

Senator McGee, you may proceed, sir.

STATEMENT OF HON. GALE McGEE, A U.S. SENATOR FROM THE STATE OF WYOMING

Senator McGEE. Wyoming is the second largest sheep-producing State in the Nation and in my State sales of sheep industry products are approximately 20 percent of our basic agricultural income. Naturally, anything that affects this is of deep concern to Wyoming.

As you know, I am the sponsor of S. 994, which has already been referred to here, which is a bill that would provide for a simple extension of the National Wool Act for a period of 7 years. We have on this bill 42 Members of the Senate who represent areas that have some interest in the sheep industry and it is a good cross-section, we think, of the country as a whole, and its dependence upon the wool and sheep industry.

I sponsored this legislation as a substitute because I believe that all of the legislative attempts until now to improve the economic conditions of our American farmers would be hard put to match the wool act in terms of stabilizing a significant segment of our agricultural endeavors in this country. That act was conceived in 1954 as an alternative means of supporting our wool and sheep industry to a tariff increase.

I think it is demonstrable that this act has achieved its aim. It has produced reasonable stability, and because it has worked so well, we would raise our first doubts about any wisdom of tampering with the formula and risking the operation of a program that is admittedly, from all angles, very much of a success.

If we are to replace it with S. 1702 we would be faced with other problems, not only the problem of cost administrationwise. I am told that administratively it would more than double the costs because of the red tape in details of reporting and calculating the graduated levels of the application of the act.

At the same time it would require reeducating all of the affected market agencies, the wool growers, personnel of more than 3,000 county ASC offices and the like, and I give personal testimony to the fact that as the wool people in Senator Moss' State, so the wool people in my State of Wyoming are unanimous in their expression of misgivings about the wisdom of S. 1702.

Uniformly they tell me that it would bring economic hardship to them, and in the marginal cases that they could not make it.

In the same manner the proposal that I have substituted for it, the proposal to extend the act straight across the board for 7 years seems to me is a realistic and understandable proposal for a reason.

If the act is extended for that period of time that time coincides with the average life of a breeding ewe. If the act is extended for that time a farmer or rancher can go into the sheep enterprise knowing that he would have an economic stability factor at least through one cycle of sheep production.

Sheep raising is a long-term operation. It is not like some of our crop problems where you can turn them off or on in a given year depending upon what the limitation may be.

In sheep raising it takes a good bit of time to develop your flock, and the shorter extension of the Wool Act envisaged in the pending legislation would leave the sheepmen with some considerable uncertainty. The real question is how far he could plan ahead or how far he dare plan ahead.

As you know the National Wool Act is geared to a national need in terms of our own domestic wools, and our ability to reach that has been demonstrated again and again, and this likewise would be called into question, placed in jeopardy, even if we were to go on some uncertain footing in regard to the Wool Act.

Now, a healthy sheep industry is obviously important to the country as a whole and not just to Wyoming or to Utah as my colleague mentioned. It is not only necessary we have a basic potential for the production of wool but, further, it should be noted that the sheep are the only efficient users of millions of acres of semiarid lands throughout the country, and that they convert rough feeds better than do most other animals.

In my State and in others like Wyoming they provide an important part of the tax base. In the interests of the State of Wyoming and the interests of the industry and the country as a whole, I would sincerely represent the advantages of the longer extension of time of the National Wool Act to a period of 7 years, and to raise serious doubts about the wisdom of shifting to S. 1702.

I have received, Mr. Chairman, a great many letters from sheepmen in Wyoming regarding this legislation and I have selected six as pointing up the various areas and facets of the problems as they see it, and I would ask that these six letters as illustrations might be made a part of the record.

The CHAIRMAN. Without objection—no duplication?

Senator McGEE. But each letter concentrates on a slightly different point.

The CHAIRMAN. Without objection the letters will be inserted in the record at this point.

(The six letters referred to follow:)

KAYCEE, WYO., May 29, 1965.

Hon. GALE McGEE,
U.S. Senate,
Washington, D.C.

DEAR SIR: I would like to register opposition to the administration's proposed farm bill, and to title IV of that bill in particular.

I feel that your bill, S. 994, is more economically sound and will aid the sheep industry with a continued production goal. America cannot afford to let the wool industry die. A 7-year extension of the Wool Act would give economic stability to the industry and encourage increased production.

Graduated payments as proposed by the administration is an unfair provision that would tend to defeat the original purpose of the act. The extra cost to administer a graduated type of payment would be an unnecessary load on the taxpayer.

All of the sheepmen with whom I have spoken have voiced disapproval of S. 1702, feeling that your bill more nearly represents the thinking of the woolgrowers in Wyoming.

Thank you for introducing S. 994, and I urge your continued support of the wool industry.

Sincerely,

DONALD L. MEIKE,
Peter Meike & Sons, Inc.

COLONY, WYO., May 24, 1965.

Hon. GALE McGEE,
Senate Office Building,
Washington, D.C.

MY DEAR SENATOR: I strongly urge your support of the National Wool Act in its present form for another 5, or better yet, 7 years. The proposed 2 years is just not long enough to be effective in a long-range enterprise such as sheep production.

The proposed graduated payments feature is unfair insofar as it penalizes the real producers whose livelihood depends entirely upon income from sheep production and who are the ones who make a substantial contribution to the production goals.

It would be unrealistic to remove production goals from the Wool Act as it is certainly as vital to national defense today as it was at the inception of this very much needed and worthwhile legislation.

With kindest personal regards, I remain,

Sincerely,

JAMES I. NEWLAND,
Greenwood Ranches.

ELK MOUNTAIN, WYO., June 5, 1965.

Hon. GALE W. McGEE,
Senate Office Building,
Washington, D.C.

DEAR GALE: Congratulations to you on receipt of the Golden Fleece Award, also for your continued support of the woolgrowers of Wyoming. I am sure it will continue unabated.

At this time I should like to advise you that I am wholeheartedly in support of S. 994 which you introduced in behalf of the woolgrowers of America.

At the same time I cannot emphasize too strongly my opposition to the Wool Act provisions of S. 1702 for the following reasons:

First, the graduated payment provisions are obviously economically unsound, and unfair to the grower who can produce wool most efficiently. In many cases his land is suited only to raising livestock, and he can do it better and cheaper than anyone.

Second, it removes the production goal. I believe the production goal is important because as you well know we raise only about one-third to one-half the wool we use in this country and it seems we should be somewhat self-sufficient in as many commodities as possible in view of the present world situation.

Third, I believe the 2-year extension embodied in the bill is not sufficient to provide the economic stability which would be adequately taken care of in your own bill.

Kindest personal regards to Loraine, yourself, and your fine family.

Sincerely,

GERALD PALM,
Palm Livestock Co.

CORA, WYO.

Hon. GALE MCGEE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MCGEE: I should like to give my support and recommendation to the bill S. 994, extending the Wool Act 7 years. It is recognized as one of the best and easiest programs to administer that exists. If any tampering is done, the support level should be raised to be more in line with the rise in prices, since the program was first instituted.

I would also oppose S. 1702 with its graduated payments, short extension, and removal of production goals. The graduated payment makes no sense whatever. The backbone of the entire sheep industry are the herds of the West which would be penalized while the fellow with 200 sheep raises them as a sideline, certainly not for a living. It would be so complicated to administer that it would be highly impractical. The production goals should be maintained and a 2-year extension falls far short of giving the industry any stability.

Respectfully,

T. L. KITCHEN,
C L Bar Ranch.

KAYCEE, WYO., *June 1, 1965.*

Senator GALE MCGEE,
U.S. Senate, Washington, D.C.

HON. SENATOR MCGEE: The possibility of wool payments being put on a sliding scale alarms me. This would be disastrous to many of the sheep ranchers in the Western States. At present most of the sheep ranchers in this section of Wyoming are just barely making ends meet, as is the situation with me. Due to the great losses of sheep and lambs in the May blizzard this year, many sheep ranchers are apt to go out of business or practically so without the cutting of their wool payments.

I therefore am hoping that the bill S. 994 is adopted without the amendment.

Yours truly,

LEROY SMITH.

GILLETTE, WYO., *May 27, 1965.*

Senator GALE MCGEE,
Washington, D.C.

DEAR SIR: I am writing to commend your action in introducing S. 994. Properly implemented it can encourage the wool producers and help to hold our future production of wool fiber at present levels. Our production of wool fiber has dropped to the critical point now.

The administration's farm bill, S. 1702, is completely unrealistic in my opinion. A 2-year extension is too short a period to stabilize the industry.

The removal of production goals would permit the Department to substitute its thinking for the intent of Congress in passing the legislation.

The graduated pay would encourage the small producer who is in and out of wool production. In the main he produces wool as a sideline to the more profitable production of other farm commodities.

The margin of profit has narrowed steadily since 1942. The larger producers of wool seldom have any other agricultural enterprise operating to lessen the impact of low wool prices. The graduated payment could be vicious.

Senator, I have been a woolgrower for 37 years. I have worked in and studied my industry for that length of time. Economically the industry was in a better position, in the late thirties and early forties, than it has been since.

Let me say again that S. 994 is a much more desirable bill than S. 1702.

Yours truly,

U. S. ARCHIBALD,
Pine Tree Ranch.

Senator McGEE. If I may have the text of my remarks from which I have just spoken loosely inserted I would like to address myself to the question you raised with Senator Moss, if that is permissible; namely, what are you going to do with the small sheepmen?

The CHAIRMAN. That is the question we have to decide insofar as the extension of the Wool Act is concerned, I don't presume there will be any trouble about that.

But the Department of Agriculture has in the last 2 or 3 years made attempts to give further assistance to the small boys, and I don't know that it can be done here, but it might be well to explore that since they made a suggestion.

Senator McGEE. I certainly am for exploring ways to help the small grower. But it seems to me the key to this question is achieving a standard and total of production in the national interests that we want to try to adhere to and our present program is successfully geared to that.

Now, the small woolman, with all due respect is dependent upon several other elements in the agricultural picture for his income, and so whereas he may not get as much from his sheep in incentive payments as the large woolman receives, he is getting help in other forms of agricultural assistance from his other programs in which he is participating.

Therefore, I hope we can keep this in balance and as we try to help the small woolman, the small sheepman that we don't pull the pinnings out from under the real base of the wool industry in this country, and that is among those sheepmen who are doing nothing else but raising sheep. Most of our sheep people are exactly in that position. They have no other sources of income but the sheep industry.

Senator YOUNG. Mr. Chairman, I think Senator McGee raises a very important point. I do believe there should be some limit put on the amount of price support assistance available under some of these programs but this would create real problems in the wool industry, where so many producers are small operators, and have sheep only as a part of their operations. In many respects, these small sheep raisers are the same as the 15-acre growers in the wheat business. We feel this group hurt the commercial wheat producer. In putting a limit on price support assistance under the wool program you would have to be awfully careful otherwise you could destroy the person who makes a full-time business of sheep and wool production.

Senator McGEE. Well, this is their feeling, too, and I think it is understandable. When they have no other sources in any other agricultural program, for example, that could cover them in case it was cut down.

Senator YOUNG. What would be the minimum sized profitable operation, say, in Arizona, I suppose it would vary even with the part of the State.

Senator McGEE. It varies and I can't answer that, Senator, without checking, but I would be glad to try to get some figures on that and supply them for the record.

Senator YOUNG. If you were in the sheep business only you would have to have a sizable number.

Senator McGEE. Yes. And your risks again are greater when your eggs are all in one basket. Your sheep are all in the same pasture, and you have no other alternatives. I do think that there must be a way that we can find means of helping the small sheepman but I don't think we are helping him if we so detract from the stability of the sheep industry in general that it would then get wobbly again because that is going to be very hurtful to the small fellow and I think we have it on a solid base at this time.

The CHAIRMAN. When I voted for this proposal in 1954 I didn't think it would take very long to obtain the goal set in the bill, but over the years we are still pretty far from reaching the goal of 300 million pounds of wool, and I am just wondering why that is?

Senator McGEE. I think, probably, we have some specialists here in the wool industry who will be able to supply that answer for you, Senator.

The CHAIRMAN. I will wait.

Senator McGEE. It is not the most attractive business in the world and you have to be a rugged individual, I think, to go into it in the first place. It is a rough life. You have to be a philosopher to begin with if you are going to survive the wool business, and that is the reason we think it is going pretty well and not pull the props from under it.

The CHAIRMAN. The cost of the wool program to date, through fiscal 1964, amounts to \$564,218,639. For fiscal 1964 the cost was \$26,262,448. The present support is 62 cents, which is equal to almost 75 percent of parity.

Senator McGEE. Yes.

The CHAIRMAN. You know in the program for some crops we fix the support price at a level for all growers, and then we have a system of making direct payments to the smaller growers, in addition. I wonder if you would be prepared to give your views as to that.

Senator McGEE. I am not prepared to give them but I have one off the top of my head that I think you would obtain in that case.

In many of these other support programs we are faced with a surplus problem to start with.

In wool we don't produce all the wool we need. We have to import some. We have been having problems on that other end, too, but we have been able to stabilize what we have been able to produce here with the flocks we have available in this country, and I think that this is the key peg to sustaining a strong and healthy wool industry as we can, and the ones who come and go from the wool industry, in other words, the marginal fellows who have only part-time wool interests, do not really contribute to the basic strength of the industry overall.

Again, when we are in short supply, I think we have added an ingredient there that belongs in the formula for holding the matter.

Senator YOUNG. I believe there is another very important factor and I would like to ask this question of Senator McGee; he may be able to answer it.

I don't believe the sheep industry, particularly wool, has the same protection from imports as does the cattle industry or wheat or many other agricultural occupations in the United States.

Senator McGEE. That is right.

As a matter of fact, the Wool Act was enacted in 1954 as a substitute for the kind of protection that, let's say, the cattle industry was receiving or other groups were receiving from imports, and this was part of it, a good part of the reason for it.

Senator YOUNG. What is the duty on imported wool now?

Senator McGEE. Twenty-five and a half cents for a clean pound.

Senator YOUNG. How does that compare with what you had 15 or 20 years ago?

Mr. EDWIN E. MARSH (National Wool Growers Association). It has been cut 25 percent but the effect is much larger than that due to inflation and other factors so that it presently is about a 20- to 25-percent ad valorem tariff, where formerly it was about a 75-percent ad valorem tariff.

Senator YOUNG. It would appear then that the sheep industry in this country wouldn't be able to compete at all without this support price protection. Wouldn't most of our sheep producers be forced into liquidation if you didn't have this program?

Mr. MARSH. Very definitely.

Senator McGEE. The whole question in the sheep industry, even more so than some others in this country where the costs of staying in business have gone up and the price your receive on the world market has gone down and this growing spread between the two is what attracts the American sheepman, and it is that kind of protection we tried to write into the Wool Act which we think has been pretty well demonstrated as an effective means of keeping him afloat.

The CHAIRMAN. Thank you very much, Senator McGee.

Senator McGEE. I want to thank the committee for its courtesy. (Senator McGee's prepared statement is as follows:)

Mr. Chairman, I very much appreciate the opportunity to appear here today to express my concern over title IV of S. 1702, which would create a program which I believe would not be in the best interests of the wool producers of my State and region or of the wool industry as a whole.

Wyoming is the second largest sheep-producing State in the Nation. Primary sales of sheep industry products are approximately \$33 million each year, which is roughly 20 percent of our basic agricultural income. Naturally, anything which affects the stability of this basic program is of real concern to all of Wyoming.

As you know, I am the sponsor of S. 994, a bill which would provide for a simple extension of the National Wool Act for a period of 7 years. I am pleased to note that a total of 42 Members of this body have joined me in sponsorship of this legislation and this group of 42 certainly represents a cross-section of all areas of the country and of all facets of our wool and sheep industry. I sponsored this legislation because I believe that of all the legislative attempts to improve the economic conditions of our American farmers, this act stands head and shoulders above the rest in terms of efficient operation and proven results. The Wool Act was conceived in 1954 as an alternative means of supporting our wool and sheep industry to a tariff increase. I think it is demonstrable that the Wool Act has achieved its aim of maintaining a domestic sheep industry without unduly penalizing foreign producers. Under the formula of the National Wool Act the grower is encouraged to produce the best wool he can and to get the best market price possible. The more he obtains in the marketplace through quality production, the greater his incentive payment.

To replace this simple and effective mechanism with the proposed graduated payment system found in S. 1702 would more than double the administrative

costs of this act and would require the reeducation of all the affected market agencies, woolgrowers, and the personnel of the more than 3,000 County Agriculture Stabilization and Conservation Service offices.

Mr. Chairman, I can give personal testimony to the fact that there is no support for title IV of S. 1702 among the sheep industry either in my State or elsewhere, while on the other hand, there is all but unanimous support for S. 994. The 300-million-pound production goal carried forward by S. 994 is supported by all segments of the sheep industry. They consider this to be a realistic goal, a limit on the life of the Wool Act and a provision that should be maintained in this legislation.

In the same manner, the extension for 7 years was proposed because this period of time represents the average life of a breeding ewe. If the act is extended for that period of time, a farmer or rancher could go into a sheep enterprise knowing that he would have economic stability through at least one cycle of sheep production. Sheep raising, of course, is a long-term enterprise and cannot be compared to crop production where a crop usually is obtained the same year the seed is planted. A shorter extension of the Wool Act would leave the sheepman with a very real question as to how far he could plan with stability.

Mr. Chairman, a healthy sheep industry is important to the Nation. Not only is it necessary that we have a basic potential for the production of wool, but, further, it should be noted that sheep are the only efficient users of millions of acres of semiarid lands throughout the Nation and that they convert rough feeds better than do most other animals. In my State and in many others, they provide an important part of the tax base, thus supporting government at all levels.

In the interests of my State, in the interests of a vital industry, and in the interests of the Nation, I hope that this committee will consider favorably an extension for a longer period of time than set forward in S. 1702.

Mr. Chairman, I have received a great many letters from sheepmen in Wyoming regarding this legislation. I have selected six as being representative of their opinion and ask that they might be included in this hearing record. I should note the strong feelings that many members of the sheep industry have that not only would a graduated incentive plan create a real increase in the administrative costs of this program, but that it is biased in favor of the part-time sheep producer and detrimental to the interests of the man for whom sheep represent his only cash crop.

I thank you again for the privilege of appearing before you on this very important matter.

The CHAIRMAN. The next witness is George Hislop, president of the National Wool Growers Association, Salt Lake City, Utah.

STATEMENT OF GEORGE K. HISLOP, PRESIDENT, NATIONAL WOOL GROWERS ASSOCIATION, YAKIMA, WASH.

Mr. HISLOP. Mr. Chairman, and members of the committee, my name is George Hislop and my home is in Yakima, Wash. I have a ewe and lamb operation in the Yakima Valley with our summer ranges running up into the Cascade Mountains toward Mount Adams. I also have a feeding operation where we buy lambs from other growers and grain feed them to market finish.

I am president of the National Wool Growers Association, which is the oldest national livestock organization in the United States. In fact, our organization is celebrating its 100th anniversary this year. Through the years the National Wool Growers Association has been recognized as the spokesman for the sheep producing industry of the United States.

Our principal membership consists of 21 State and area wool producer organizations which operate in Arizona, California, Colorado, Georgia, Idaho, Indiana, Iowa, Kansas, Maryland, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, Oregon,

Texas, Utah, Washington, South Dakota, Wisconsin, and Wyoming. In this 23-State area 87.65 percent of the Nation's wool was produced in 1964. Wool, however, is produced in all 50 States.

The CHAIRMAN. What does that work out in pounds?

Mr. HISLOP. Yes, sir; we have it here in a set of charts, which I would request be put into the record. They are from the U.S. Department of Agriculture.

The CHAIRMAN. Will you put those in in connection with your own presentation?

Mr. HISLOP. Not all of them; no, sir.

The CHAIRMAN. I don't want all of them unless they are pertinent to your testimony.

Mr. HISLOP. They are pertinent but I do not include them all in my presentation.

The CHAIRMAN. You proceed then and include in the record those that you desire to put in in connection with your testimony.

Mr. HISLOP. Thank you, sir.

The CHAIRMAN. And we will get the rest of the testimony.

Mr. HISLOP. Mr. Chairman, we support S. 994 which provides for a simple extension of the National Wool Act for 7 years. We are opposed to title IV of S. 1702 because: (1) it would change the policy statement in the act, which we feel should be left as is; (2) it contemplates making payments at graduated rates, which we feel would not only complicate operation of the program for both the Government and growers, but also would negate the objectives of the act; and (3) it provides only a 2-year extension.

S. 994 is cosponsored by 44 Senators, including the Democratic and Republican leadership in the Senate. Also, the cosponsors include nine members of the Senate Agriculture Committee. S. 994 provides for extension of a program that has been working well for the past 11 years. Furthermore, it is one farm program that has complete industry approval. It has worked to the satisfaction of all major segments of the wool industry, from producer through manufacturer.

On the other hand we object to those provisions in title IV of S. 1702 which would amend the present Wool Act program. We would like to make the following comparisons of the present Wool Act program with those proposed in S. 1702. In consideration of these bills we want to keep in mind that we are dealing with a commodity that is in deficit and not surplus production.

1. AMENDMENT OF POLICY STATEMENT

The Congress in 1954, and in the two extensions of the National Wool Act in 1958 and 1961, set forth in the act the desirability of an annual production of 300 million pounds of shorn wool. While several important factors have to date prevented our industry from reaching an annual production of 300 million pounds of shorn wool, we believe that it is a reasonable level of production. At the time this level was set it was about one-third of our domestic wool requirements. With increases in population so far and with the expected population explosion, this figure is not out of line today. It is reasonable in the light of range and forage resources of the country. Furthermore, the effect of the present policy statement is to make price support mandatory up to the 300-million-pound level. S. 994 would provide for

retention of this policy statement which has been in the act since its inception. We strongly urge that this policy be continued.

We do object to the amendment to the policy statement as set forth in S. 1702. It would enable the Secretary of Agriculture, rather than the Congress, to determine the scope of the program. Furthermore, relating the wool support price to the possible effect on lamb prices is not only of questionable soundness but would be subject to conflicting interpretations, depending on the particular desires of the Secretary and his advisers at the time.

For example, when lamb prices drop, the Secretary might interpret this amendment to mean that the wool support level was too high and should be reduced or dropped, to discourage lamb production. Actually, the purpose of the Wool Act, as we will point out in this testimony, is to provide price assistance on wool in lieu of a tariff increase.

Many factors directly affect the price of lambs and they are outside the industry itself. Weather has a tremendous effect. It determines the number of lambs coming to market from the ranges at any one time or it can cause unusual marketing situations which will raise or lower the price of lambs. Texas, New Mexico, and other States have had bad droughts within the time the Wool Act has been in effect, causing unusual marketing and liquidation of flocks.

Imports affect lamb prices as we have pointed out to both the Tariff Commission and to the Congress.

The amount of red meat and poultry available in the United States has an effect on the price of lambs. The price relationship between beef, pork, poultry, and lamb in the marketplace is a very sensitive one.

Before World War II the industry supplied between 7 and 8 pounds of lamb per person as opposed to between 4 and 5 pounds today. All the lamb that is produced is consumed. It does not go into storage. With our promotion program and increases in population more lamb can be used in this country, not less.

We strongly urge retention of the congressional policy statement setting forth the desirability of the 300-million-pound production level as provided in S. 994.

2. GRADUATED PAYMENTS

S. 994 would continue the present method of making payments under the National Wool Act. Under this system the Secretary of Agriculture, in consultation with the growers, establishes each year an incentive price level and the percentage difference between this level and the price received by growers in the marketplace is paid to the growers. The mechanics of the present program for the growers, the trade and county ASC offices are simple and efficient.

We strongly oppose the amendment in title IV of S. 1702 which would set up a series of graduated payments for various levels of production. According to the Department of Agriculture itself, this is a "major" amendment to the present act. It runs contrary to the President's farm message which recommended extension of the National Wool Act with only "minor" amendments. The Department, in keeping with the President's farm message, did not even propose this "major" amendment at the House hearings in March of this year.

This proposal would provide a few dollars additional income for the small producer but it will not carry out the purpose of the act, which is to increase the production of wool in the United States.

The National Wool Act was established in 1954 in lieu of a tariff duty increase on raw wool, which was recommended by the Tariff Commission at that time. This recommendation for a duty increase was made to the administration following an investigation under section 22 of the Agricultural Adjustment Act. However, the administration took the position that, in order to maintain and improve our relations with friendly nations shipping wool to this country, and increase in the tariff duty should not be made. The wool-incentive program set forth in the National Wool Act was then evolved and the Congress passed it as a means of maintaining a domestic sheep industry without increasing tariff duties on imports of wool.

The National Wool Act was designed to provide price assistance on wool to the benefit of the entire sheep industry, and not to any one portion.

The CHAIRMAN. Doesn't the tariff that we heretofore had remain on wool?

Mr. HISLOP. It is reduced considerably, sir.

The CHAIRMAN. Yes, I understand that. Do you know how much is collected.

Mr. HISLOP. Approximately, I think right now it is running around \$125 million.

The CHAIRMAN. From wool alone?

Mr. HISLOP. From wool and wool manufactures.

The CHAIRMAN. I see. As I pointed out earlier for fiscal 1964 the payment to wool growers was \$26,262,448 so it is a small amount comparatively speaking of what we collect out of the tariff going to the Treasury.

Mr. HISLOP. Yes, sir.

The CHAIRMAN. Proceed.

Senator YOUNG. Could I ask a question or two?

The CHAIRMAN. Certainly.

Senator YOUNG. Aren't 70 percent of these funds collected through the tariff on wool and wool products set aside for this program?

Mr. HISLOP. Yes. That has been running at the moment somewhere between \$85 and \$100 million, depending on the total amount collected.

Senator YOUNG. What is the status of these funds now? How much money is in the Treasury to make these payments now?

Mr. HISLOP. They are figuring now there are \$90 million available to support the wool program, of which we are using about \$26 million.

Senator YOUNG. Mr. Chairman, I believe this marks a substantial improvement in the fund position for this program. I believe that at one time the funds set aside from the tariff receipts to support this program were depleted, isn't that correct?

Mr. HISLOP. Yes. As a matter of fact, for a while we were overdrawn a little but since the last year or so, we have put ourselves on a current basis with the fund.

Senator YOUNG. There are about \$90 million in that fund today and you are only using about \$27 million, is that correct?

Mr. HISLOP. About \$26 million of which I estimate \$2 million is administrative expense of the Department.

Senator YOUNG. So that situation has improved considerably.

Mr. HISLOP. The annual average cost of the program the first 7 years was about \$54 million.

The CHAIRMAN. You mean in toto?

Mr. HISLOP. The cost on a yearly average basis for the first 7 years was about \$54 million. So we are down now to less than half of that.

The CHAIRMAN. What is the reason for that?

Mr. HISLOP. Better prices for wool on the world market.

Furthermore, producers with small flocks of sheep do not have sheep as principal source of income. Such farmers are frequently producers of other agricultural commodities such as wheat, corn, hogs, et cetera. According to the 1959 census, approximately 85 percent of the farms with sheep have less than 100 head. In fact, nearly one-half have less than 25 head. In such cases sheep are a very minor sideline. A man with only 40 sheep might have a larger net farm income, including all of his crops and livestock, than a man with 4,000 sheep.

The CHAIRMAN. Well, a moment ago Senator McGee stated, as I understood him, that about 20 or 25 growers in Wyoming produced wool, only wool, and nothing else, is that correct?

Mr. HISLOP. I am sure there are more than that in Wyoming, who live solely on the income from their sheep. We have more than that in the State of Washington.

Senator YOUNG. I think Senator McGee stated that 20 to 25 percent of the total farm income of Wyoming was from sheep.

Mr. HISLOP. The 20 I think he is talking about are scattered all over the country and are the very, very large producers in the country and there are only about 20 of these.

The CHAIRMAN. And they depend entirely for their livelihood on sheep?

Mr. HISLOP. This is true, sir.

The CHAIRMAN. He said these 20 collected from \$20,000 to \$30,000 per year. What would be the size of such an operation?

Mr. HISLOP. Somewhere in the neighborhood of 20,000 to 30,000 ewes, breeding stock.

The CHAIRMAN. Well now, of your entire number of sheep how many on an average are shorn in order to obtain wool.

Mr. HISLOP. Well, each ewe is sheared each year, once a year, and in some areas in Texas, in the warmer climates they are sheared twice a year.

The CHAIRMAN. What would you say is the average number of sheep that are sheared per year? Do you have that in your table?

Mr. HISLOP. I have it here, yes, sir.

The CHAIRMAN. I have here that the number of ewes in 1964 amounted to 19,462,000. Rams 771,000. Wethers 174,000 for a total of 24,348,000. Is that indicative of the number of sheep that are shorn each year, if those figures I have given you are correct.

Mr. HISLOP. Yes, sir.

The CHAIRMAN. So that the subsidy separate for wool is over a dollar a head.

Mr. HISLOP. That would vary, I think, sir—on the average this would be true, but depending on the particular operation, where it is in the country this varies a little. It depends on the number of pounds per head that the man's flock would shear.

The CHAIRMAN. Would it amount to more or less than a dollar per head, on an average I am talking about?

Mr. HISLOP. The average would be about what you said.

The CHAIRMAN. A little over a dollar, 26 million, the subsidy amounts to \$26 million plus, and the number that are shorn per year according to the figures taken from the Department of Agriculture for 1964 indicates that 24,348,000 were shorn.

Senator YOUNG. What is the value of the wool from one ewe?

Mr. HISLOP. To the present moment, the May average was 48 cents.

Senator YOUNG. I mean the total value of wool that you get from a sheep? How many pounds of wool do you average per head?

Mr. HISLOP. Well, this varies from 5 pounds per head in some areas up to 10 and 11 pounds in some other areas.

The CHAIRMAN. What is the average?

Mr. HISLOP. The average is 8.4 pounds per head.

The CHAIRMAN. What is it in Washington?

Mr. HISLOP. It is right at 10.

The CHAIRMAN. Ten pounds.

Senator YOUNG. How much do you get per pound of wool?

Mr. HISLOP. 48 cents is the average at the moment.

Senator YOUNG. What does it cost for shearing? I understand it is about a dollar a ewe now.

Mr. HISLOP. Well, in our country, it is 75 cents to put it in the bag.

The CHAIRMAN. Proceed.

Mr. HISLOP. This graduated payment proposal would reduce payments on the meaningful sheep production in the country. However, it would probably increase payments by less than \$15 annually per grower for the 232,000 producers who raise an average of only 370 pounds of wool each year. This calculation is based on an increase from 62 cents to 66 cents in the incentive level for the producers with the small flocks, which is the increase we were told at a briefing session that the Department has in mind. This small amount will not be of significant benefit to these producers who by choice have small flocks. On the other hand we have no doubt that cuts in payments to the producers with larger flocks will cause liquidation in these flocks.

In semiarid western and southwestern regions where land is not suitable for crop production, large numbers of sheep are required for an economic unit. Therefore, these producers must depend on sheep and wool production either as their principal or sole source of income. These producers are the mainstay of our sheep production. Almost all of them are family farmers. They are the ones who would be adversely affected and in some cases ruined by this proposal. Many areas of our country are heavily dependent on sheep production to maintain their economies.

Last, but not least, we doubt that the Department has seriously considered how complicated and expensive it would be to operate this graduated wool payment program with varying rates of payment.

3. PERIOD OF EXTENSION

S. 994 would extend the present Wool Act program for 7 years. A 7-year extension makes quite a lot of sense in that it represents one complete cycle of sheep production. Seven years is the average life-span of a breeding ewe. This is the time from the birth of the ewe

extending through five reproductive cycles, or "lambings." If the act were extended for 7 years, a farmer or rancher could go into sheep production in 1966, assuming good management and good husbandry, knowing that he would have enough economic stability through at least one cycle of sheep production to interest him in raising more lambs and wool. Obviously sheep production is a long-term enterprise. It takes 2 years from the time a ewe lamb is born until she reproduces. The Internal Revenue Service recognizes, in its depreciation schedules, that the ewe will have a useful lifetime of 5 years from the time she starts to reproduce, thus totaling a lifespan of 7 years. Clearly, our production is different from a yearly planted crop.

On the other hand S. 1702 provides for only a 2-year extension of the National Wool Act, while in March the Department recommended and the House Agriculture Committee approved a 4-year extension. A 2-year program would not encourage anyone to go into a sheep enterprise, but would cause further liquidation and would make it difficult to obtain necessary financing.

The CHAIRMAN. Why do you say it would cause further liquidation if you say this program is as good as it is. In other words, if you extended it for 2 years, or 3 years or 4 years, I am just wondering the effect it would have on those already in business. It must be a bad one if we extend it for 2 years and that would mean liquidation of some of the flocks.

Mr. HISLOP. I think, sir, that the extended——

The CHAIRMAN. Or herds—flocks.

Mr. HISLOP. I think extending it with a lowered graduated payment for the producers and a short period of time he would not replace his flocks but wear them out and go out of the sheep business. He would have to find something else to do. It wouldn't be economical or feasible for him to stay in.

The CHAIRMAN. We never have had any difficulty so far as I know in renewing this act from year to year, from expiration to expiration. I just can't follow your argument. It must be that something is wrong with the program as a whole if an extension for only 2 years, with our past history that extensions have been made whenever the law expired, is cause for them to liquidate. I just can't follow you.

Mr. HISLOP. Well, so far the act has been renewed each and every time, but it is in an uncertainty that enters into a producer's mind as to whether it will be renewed the next time or not. It also enters into the mind of his banker. When the grower borrows money to replace his ewes, he takes a pretty good look as to whether or not he is going to make any money because it will take 2 years before a ewe lamb will produce any offspring. The only income from that lamb is the wool for 2 years.

The CHAIRMAN. You say the cost of administration would be greatly advanced or augmented, and you stated that 85 percent of the wool growers have from 100 sheep on down.

Mr. HISLOP. Yes.

The CHAIRMAN. To as low as 25.

Mr. HISLOP. Own them in flocks of a hundred or less.

The CHAIRMAN. So that 15 percent of the growers produce an average of a hundred to what?

Mr. HISLOP. In numbers of sheep?
The CHAIRMAN. Yes.
Mr. HISLOP. I think probably the largest operator runs around 25,000 ewes.
The CHAIRMAN. 25,000 head?
Mr. HISLOP. Yes.
The CHAIRMAN. How would you classify them, let's say, between say a thousand and 5,000, 5,000 to 10,000. Have you got a table indicating that?
Mr. HISLOP. Yes, sir, this is on the census of 1959. By region and percentage of ownership.
The CHAIRMAN. All right, suppose we place this in the record at this point. I guess you obtained your information from the USDA.
Mr. HISLOP. Yes.
The CHAIRMAN. All right.
Mr. HISLOP. They might have some later data than this, sir, based on 1964.

The CHAIRMAN. We will check on that and make it up to date. According to this table the number under 25 varies by regions.
Mr. HISLOP. Yes, sir.
The CHAIRMAN. In North Atlantic 68 percent, whereas in the West 43 percent. South Central 41 percent, and 25 to 99 in the West, 25 percent; and the West North Central 39 percent; and from a hundred to 299 North Atlantic is 5.27 percent; and the highest is in the West, 15.5 percent.
This table will be placed in the record with the understanding it may be substituted for later figures.
(The table referred to follows:)

Sheep and lambs: Farms reporting by size of flock, by regions, with percentage breakdown, census of 1959

	Farms reporting sheep and lambs	Farms reporting by size of flock						
		Under 25	25 to 99	100 to 299	300 to 999	1,000 to 1,999	2,000 to 4,999	5,000 or more
(a) Number of farms reporting sheep and lambs:								
North Atlantic.....	18,337	12,474	4,746	967	146	3	1	-----
East North Central.....	90,281	53,464	30,236	5,609	905	57	8	2
West North Central.....	109,777	48,148	43,202	14,112	3,600	532	158	25
South Atlantic.....	22,886	12,919	8,819	1,012	120	14	2	-----
South Central.....	51,458	21,210	17,798	7,617	3,375	863	490	105
West.....	49,158	21,162	12,739	7,621	4,376	1,727	1,129	404
United States ¹	341,952	169,421	117,546	36,938	12,522	3,196	1,790	539
(b) Percentage of farms, within region, reporting sheep and lambs:								
North Atlantic.....	100.0	68.03	25.88	5.27	0.80	0.02	0.01	-----
East North Central.....	100.0	59.22	33.49	6.21	1.00	0.06	0.01	² 0.00
West North Central.....	100.0	43.86	39.35	12.86	3.28	0.48	0.14	0.02
South Atlantic.....	100.0	56.45	38.53	4.42	0.52	0.06	0.01	-----
South Central.....	100.0	41.22	34.59	14.80	6.56	1.68	0.95	0.20
West.....	100.0	43.05	25.91	15.50	8.90	3.51	2.30	0.82
United States.....	100.0	49.55	34.38	10.80	3.66	0.93	0.52	0.16

¹ Includes Alaska and Hawaii.
² Less than 0.01 percent.

The CHAIRMAN. I am simply taking the negative here in order to find out, if we can, the additional work that would be made in—that would be necessary in order to pay this on a graduated scale as is suggested by the Department.

Mr. HISLOP. Sir, I think one of the later witnesses has more detailed comment on that.

The CHAIRMAN. Very well. It will be of great help.

Senator YOUNG. Mr. Chairman, I can understand woolgrowers' concern about a future extension of this program and their desire to have a 7-year extension now. With all the adverse publicity on farm programs, and this is classed as a price-support program, they may all come to an end one day. Public opinion is running against this legislation and even some farm groups are advocating abolishing all these programs.

So I can understand why a producer with a sizable investment in this business would be concerned about short-term extensions.

The CHAIRMAN. Well, I can, too, and that is why I stated on many occasions that unless something is done to curtail the cost of these programs the city folks who are represented in the House of Representatives in a large number may sometime revoke and doubtless maybe give us a coup d'etat on all of these programs. And I hesitate to see that, particularly the programs that are now being advocated when you speak of placing the burden on the people rather than on the taxpayer, which is one and the same thing. When the news is spread around that our wheat program will mean a cent more a loaf or 2 cents.

I don't agree with that but it is being spread around. Even though the cost of living as to other commodities is increasing now, they attribute increases in food prices to our programs. You can see what we are up against here. I want to obviate that if I can.

Senator YOUNG. I am glad the chairman brought that out because he is a good supporter of these programs and one of the best friends the producers ever had.

The CHAIRMAN. I have been on this committee for over 28 years and I have fought as hard as I knew how for our farmers. But as we go up the hill it gets tougher and tougher.

Senator YOUNG. It certainly does.

The CHAIRMAN. Proceed.

Mr. HISLOP. Now that we have made a comparison of the two bills, we would like to set forth some thoughts, Mr. Chairman, on the concern which you expressed at these hearings last week both as to the cost of the Wool Act program and the fact that it has not yet achieved the goal of increased wool production. With regard to the cost, we would like to point out that while payments under the program averaged approximately \$54 million per year during the first 7 years of its operation, they have been reduced substantially during the last 3 years. In fact, cost for the 1964 marketing year, as you mentioned was about \$26 million. This reduction is the result of higher market prices for wool.

We do feel that our self-help wool promotion program has been effective. This program has been approved overwhelmingly by grower referendums and is financed with grower funds. The program is de-

signed to improve the price of wool, thereby cutting down the amount of funds required to support the Wool Act program.

From 1960 through 1964 there was a steady rise in the farm price of wool in the United States from 42 to 53.2 cents per pound. This year there has been a leveling off and the average farm price as of May 15 was 48 cents. Assuming wool prices hold near their present levels, a modest increase could be made in the incentive level and still keep the annual cost of the program several million dollars less than the average annual cost during the first 7 years.

Senator YOUNG. What do you think of the present incentive level of 62 cents?

Mr. HISLOP. It has been 62 cents since the beginning of the program, and with the funds available, and with the condition of the industry and the cost of sheep production the incentive price level could be raised slightly, and still keep it underneath the average for the first 7 years.

Senator YOUNG. To what cause would you attribute the drastic drop in lamb prices in 1961 and 1962?

Mr. HISLOP. This was the result of an abnormal marketing situation. There was a bunching of marketings in the spring of 1961, by delayed marketings of the fed lambs and earlier-than-usual marketings in the new crop. This resulted in a marked increase in slaughter supplies and a buyers' market during a short period from March to June.

The low prices prevailing from this situation discouraged feeder demand that summer and fall. It was a short-term situation and shouldn't be considered typical of the movement of lambs to consumption. Better prices could be obtained with a gradual increase in numbers of lamb and wool production and over a period of years we are confident that we could move into consumption more lambs at favorable prices.

The CHAIRMAN. It might be well for you or any other witnesses who testify today to indicate whether or not the production of wool would be increased or decreased if we followed the proposals of the Department. And the next point, to my way of thinking, would be, suppose we rid ourselves of the wool program entirely. What effect would that have on the price of wool that we would have to buy from abroad? In other words, if we were entirely dependent, more or less dependent, on foreign production, would it not result in higher prices for the product?

Mr. HISLOP. Certainly, the price of wool is determined in this country by the world market.

The CHAIRMAN. Yes.

Mr. HISLOP. I think it is always good to have a domestic supply of wool on hand to keep from being under the pressure of having to pay more in the world market.

The CHAIRMAN. That is what prompted the Congress to initiate the program, I presume. In fact, that is what prompted me to vote as I did. We felt it necessary to have a certain amount of our requirements produced in our own country. I can envision the time where if we didn't have that production here, we might be at the mercy of foreign producers. The same thing goes for sugar. If you remember we were at the mercy of foreigners at one time. Now we have quite

a healthy production of sugar, and because of that, I believe, we are able to maintain a fair price for that product, and the fact that we produce as much as 35 to 36 percent of our requirements causes the foreign producer to behave insofar as prices are concerned.

Mr. HISLOP. As to the figure where it is good insurance and yet it doesn't affect the imports.

The CHAIRMAN. Yes.

If during the course of your presentation somebody could bring those points out effectively, I believe that it would be—it would make a lot of Senators and Congressmen think before they desire to change the program because the purpose of this act was to increase production.

Mr. HISLOP. Yes, sir.

The CHAIRMAN. Now, if you can show this method proposed by the Department would decrease production there won't be any question, or there won't be any quibbling, that is point No. 1.

Then would there be higher prices to the consumer should production in this country be lowered? Those are two points which I hope that the witnesses will bear down on.

Proceed.

Senator YOUNG. Mr. Chairman, I would like to have their views as to what the effect would be of abandoning the objective of encouraging the production of 300 million pounds a year. What difference would that make in the program?

Mr. HISLOP. I think I am about to get there.

The CHAIRMAN. I don't know that the picking of a goal mean anything because they have never reached it anyhow.

Senator YOUNG. I think it leaves some uncertainty as to what price support level would be established by Department of Agriculture officials, however.

The CHAIRMAN. Let's hear you on that.

Proceed.

Mr. HISLOP. With regard to the fact that we haven't as yet attained the 300-million-pound annual production level of shorn wool, there are several important factors that have prevented this. For one thing, we have had some serious drought conditions since the inception of the program in several of our important sheep-producing States. Texas, for example, which accounts for approximately one-fifth of the Nation's wool production, has had several serious drought periods since 1954. New Mexico, in the last year, has had a decline in sheep population due to their drought conditions. Another factor which started a liquidation trend in sheep numbers in 1960 after several years increase, we actually talked about this a moment ago, was the fact that we had unusual marketings, the question that you asked just previous to that, was the discouragingly low lamb prices. By 1961, the average farm price of lambs had dropped to a low of \$15.80 per hundred pounds due to short-term and unusual marketing problems. Other contributing factors to liquidation have been reductions in grazing allotments on Federal lands, difficulties in securing adequate and efficient herders, and losses from predatory animals, including dogs.

I would like to point out that the Wool Act was responsible for alleviating the liquidation trend cause by drought and marketing problems. Furthermore, the Wool Act was a factor in increasing our sheep production during the 3 years, 1958 through 1960. I do know that many

growers have stated that they would not be in the sheep business today if it had not been for the national Wool Act.

With a better lamb market and with a national wool act such as S. 994 provides, we can look forward to an increase in the sheep population on a gradual basis.

During the 11-year operation of the Wool Act, the level of incentive payments under the act has remained at 62 cents per pound. We feel that our organization and most of those in the industry can appreciate that there have been sound reasons, especially in the early years of the program, for holding the level at 62 cents, based on costs of the program and funds available for payments. However, there are now valid reasons for increasing the incentive level. We do point out that in the 10-year period from January 1955 to January 1965, the index of prices paid by farmers, including wage rates, interest and taxes, has changed from 278 to 317, a rise of 14 percent. The incentive level of 62 cents today represents only 75 percent of parity.

Although it is very difficult to mechanize production of lambs and wool, many economies in production have been made by those who have been able to survive. However, the production costs have now exceeded production efficiency. This shows the need for some reasonable upward adjustment in the incentive level, which we feel can be made in view of the substantial reduction in the program costs and with reasonable prospects of continued reductions in these costs in years to come.

Senator HOLLAND. Mr. Chairman, may I ask a question there? Do you still have with you the Basque shepherders whom we passed special legislation to allow to come in?

Mr. HISLOP. Yes, sir.

Senator HOLLAND. How many?

Mr. HISLOP. I don't know the total number in the United States. I know as far as our own operation is concerned we could not be in the sheep business without them.

Senator HOLLAND. Where can we get the total number of the Basque?

Mr. HISLOP. The Immigration Department. We can certainly get them for you, sir.

Senator HOLLAND. What is the number you have in your own operation?

Mr. HISLOP. We have 11.

The CHAIRMAN. You mean your own individual?

Mr. HISLOP. In our own individual operation we have 10 Basque shepherders.

Senator HOLLAND. Mr. Chairman, I hope——

The CHAIRMAN. We can obtain those figures and place them in the record in connection with this testimony.

(The information is as follows:)

The Immigration and Naturalization Service advised that there were 1,371 Basque shepherders in the country on May 31, 1965.

Senator COOPER. I suggest you be careful or the Department of Labor may get into the act.

Senator HOLLAND. What is the level of pay you pay the Basque herders?

Mr. HISLOP. We pay them at the same level we pay our domestic herders, in our country which is \$200 a month and their keep.

Senator HOLLAND. Do they have their families with them or are they single men?

Mr. HISLOP. Single men.

Senator HOLLAND. In all cases?

Mr. HISLOP. I don't know in all cases but in the majority of cases they are single men. In any case their families do not come with them.

The CHAIRMAN. When you say their "upkeep" do you mean just their lodging?

Mr. HISLOP. Lodging and food.

The CHAIRMAN. And food?

Mr. HISLOP. Oh, yes.

The CHAIRMAN. They live on the range?

Mr. HISLOP. Yes, this \$200 is net to them.

Senator HOLLAND. I understand no Americans want to be sheepherders or very few of them.

Mr. HISLOP. This is very true.

Senator HOLLAND. Thank you, Mr. Chairman.

The CHAIRMAN. Proceed.

Mr. HISLOP. And one way of accomplishing this increase in the incentive level is to be found in Senate bill 2161, which Senator Bible introduced yesterday, which would amend the Wool Act to prescribe a formula under which the incentive price level for shorn wool would be established each year.

This would remove any possible inference that the Secretary of Agriculture must raise the incentive level and obligate funds beyond reasonable limits just to reach the annual production of 300 million pounds of shorn wool stated in the act.

The formula would adjust the incentive level for changes in the index of prices paid and cost conditions affecting wool production. The 3-year period, 1958-60, would be used as the base in calculating the level to be set each year rather than have the Secretary set the level.

Under the formula, the incentive level for the 1966 marketing year would be increased 4½ percent or to 65 cents (see table attached) from the 62 cents that has been established for each of the 11 years of the program to date.

We consider such an increase only fair and in accord with the intent of the act. Also, with prices received by growers for wool in the free market averaging several cents a pound higher than during the early years of the program, such an increase in the incentive level can be made and the total annual cost of the program still be less than the average for the first 7 years.

Inclusion of the formula in the act would allay any contention that the incentive level should be increased beyond reason and spend all the funds authorized, just to reach an annual production of 300 million pounds of shorn wool.

(The table referred to follows:)

Application of formula under which incentive price level for shorn wool would be adjusted to reflect changes in the parity index of prices paid

Year	Parity index ¹		Percentage change in index 1958-60 to 1962-64	Incentive price with 62 cents adjusted by parity index	
	Calendar year	Average for 3 preceding years		Marketing year	Incentive price (cents)
1954	278				
1955	276				
1956	278				
1957	287	277.3			
1958	294	280.3			
1959	298	286.3			
1960	300	293.0			
1961	302	297.3			
1962	307	300.0			
1963	312	303.0			
1964	313	307.0			
1965		310.7	4.5	1966	65

¹ Published by USDA. Average for the years 1910-14 equals 100.

Mr. HISLOP. I would also like to emphasize the importance of extending the Wool Act as soon as possible in this session of Congress. While the actual expiration date of the program is March 31, 1966, the marketing year for wool was shifted from an April-March to a calendar year basis to better fit the wool production and marketing pattern. Therefore, the present marketing year, which expires on December 31 of this year, is the last full marketing year under the present program. It would be highly impractical to have a program for the 3-month period from January 1 through March 31, 1966, since it would serve only certain areas of the country and would also result in an unusual amount of early shearing to secure a payment before the expiration of the program.

Legislation extending the National Wool Act is needed as soon as possible in order that producers may efficiently plan their breeding program for the coming year and arrange the necessary financing. Also, this would enable the Secretary of Agriculture to announce the program for the 1966 marketing year in advance, as provided in the act, to allow the producer to accomplish his planning. The announcement for the ensuing year should be made in the early summer. This is the time that the grower determines whether to increase his production, hold it at the existing level, or liquidate his operation entirely.

President Johnson, at a meeting with our association officers last summer, recalled his consistent support of the National Wool Act while serving in the Senate. He also recommended its extension in his farm message. Vice President Humphrey stated last fall his support for extension of the Wool Act and saw no need for any changes unless the growers themselves desired amendments. The National Agricultural Advisory Commission recommended extension of the Wool Act substantially in its present form.

In conclusion we would like to point out to you that in S. 1702 the Department of Agriculture has, through the introduction of the graduated payment proposal, made a major shift in its position from testimony before the House Agriculture Committee 3 months ago. Furthermore, it continues to advocate the amendment to the policy statement which the House committee strongly rejected. Department

officials told us last December they would consult with us if any changes were contemplated in the Wool Act extension. This they have not done. We feel strongly that the Department is displaying a lack of understanding of the economics of the sheep industry in these proposals. We believe that under the proposals for wool in S. 1702 the sheep industry of this country will decline rather than increase, which is diametrically opposite to the purpose of the act.

We therefore respectfully request that this committee take favorable action in reporting S. 994 either as a separate bill or as a substitute for the language of title IV of S. 1702.

Mr. Chairman, when S. 994 was introduced, 103 sheep and wool producer organizations in 48 of our States joined in supporting extension of the Wool Act as set forth in this bill. I would like permission to have inserted in the record the names and addresses of these organizations if that is permissible.

The CHAIRMAN. Without objection that will be done.

Mr. HISLOP. Thank you, sir.

(The document referred to follows:)

Renewal of the National Wool Act is supported by these organizations in the sheep producing industry: National Wool Growers Association, Salt Lake City, Utah; National Wool Marketing Corp., Boston, Mass.; National Lamb Feeders Association, Lamar, Colo.

Alabama: Alabama Sheep & Wool Growers Association, Montgomery.

Arizona: Arizona Wool Growers Association, Phoenix.

Arkansas:

Northwest Arkansas Sheep Producers Association, Springdale.

Washington County Sheep Association, Fayetteville.

California: California Wool Growers Association, San Francisco.

Colorado:

Colorado-New Mexico Wool Marketing Association, Denver.

Colorado Wool Growers Association, Denver.

Colorado Wool Marketing Association, Denver.

Columbia Sheep Breeders Association, Fort Collins.

Connecticut: Connecticut Sheep Breeders Association, Ivoryton.

Delaware: Delaware Sheep & Wool Association, Dover.

Florida: Northwest Florida Sheep Growers Association, DeFuniak Springs.

Georgia:

Georgia Purebred Sheep Breeders Association, Athens.

Georgia Sheep & Wool Growers Association, Moxley.

Idaho:

Idaho Wool Growers Association, Boise.

Idaho Wool Marketing Association, Inc., Pocatello.

Illinois:

Illinois Purebred Sheep Producers Association, Urbana.

Illinois Sheep Breeders Association, Libertyville.

Indiana:

American Shropshire Registry Association, Lafayette.

Indiana Farm Bureau Cooperative, Indianapolis.

Indiana Sheep Breeders Association, Valparaiso.

Iowa:

Iowa Sheep & Wool Growers Cooperative Association, Hampton.

Iowa Hampshire Sheep Association, Stuart.

Kansas:

Kansas Purebred Sheep Breeders Association, Manhattan.

Kansas State Sheep & Wool Association, Carlton.

Kentucky:

Blue Grass State Sheep Association, Lexington.

Kentucky Wool Growers Cooperative Association, Lexington.

Louisiana:

Central Louisiana Sheep Association, Cheneyville.

Louisiana Sheep Growers Association, Baton Rouge.

Louisiana Sugar Belt Sheep Growers Association, St. James.

Maine : Maine Sheep Breeders Association, Gray.

Maryland : Maryland Sheep Breeders Association, Ellicott City.

Massachusetts :

Essex County Sheep Breeders Association, West Newbury.

Middlesex County Sheep Breeders Association, Bolton.

New England Sheep & Wool Growers Association, Ludlow.

S.E. Massachusetts Sheep Breeders Association, Duxbury.

Worcester County Sheep Association, Oxford.

Michigan :

American Oxford Down Record Association, Eaton Rapids.

Michigan Sheep Breeders Association, East Lansing.

Michigan Lamb Feeders Association, East Lansing.

Minnesota :

Minnesota-Dakota Columbia Breeders Association, Sleepy Eye.

Minnesota Sheep Breeders Association, St. Paul.

Minnesota Wool Growers Association, Minneapolis.

North Central Wool Marketing Corp., Minneapolis.

Southern Minnesota Sheep Breeders Association, Le Center.

South Dakota Wool Growers Association, Minneapolis.

Mississippi : Mississippi Sheep Producers Association, State College.

Missouri :

American Corriedale Association, Columbia.

Midwest Wool Marketing Cooperative, Inc., Kansas City.

Missouri Sheep & Wool Improvement Association, Kansas City.

Northeast Missouri Hampshire Sheep Association, Leonard.

Montadale Sheep Breeders Association, St. Louis.

National Suffolk Sheep Association, Columbia.

Montana :

Montana Wool Growers Association, Helena.

Northwest Wool Marketing Association, Chinook.

Nebraska : Nebraska Wool Growers Association, Whitney.

Nevada :

Nevada Wool Growers Association, Ely.

Nevada Wool Marketing Association, Ely.

New Hampshire : New Hampshire Sheep Breeders Association, Durham.

New Jersey :

New Jersey Hampshire Sheep Association, Bernardsville.

New Jersey Sheep Breeders Association, New Brunswick.

New Mexico : New Mexico Wool Growers Association, Albuquerque.

New York :

Empire Shepherds, Cambridge.

New York State Sheep Growers Association, Ithaca.

New York State Sheep Growers Cooperative Association, Penn Yan.

New York State Corriedale Association, Holcomb.

Schuyler County Sheep Breeders Cooperative Association, Watkins Glen.

Western New York Lamb Feeders, Batavia.

North Carolina : North Carolina wool pools, Raleigh.

North Dakota :

Missouri Slope Wool Growers Association, Center.

North Dakota Cooperative Wool Marketing Association, Fargo.

Ohio :

Ohio Sheep Improvement Association, Columbus.

Ohio Wool Growers Cooperative Association, Columbus.

Oklahoma : Oklahoma Sheep & Wool Growers Association, Delaware.

Oregon :

American Romney Breeders Association, Corvallis.

Oregon Wool Growers Association, Fossil.

Pacific Wool Growers, Portland.

Pennsylvania :

American Cheviot Sheep Society, Lafayette Hill.

American Southdown Breeders Association, State College.

Continental Dorset Club, Hickory.

Pennsylvania Sheep & Wool Growers Association, Lafayette Hill.

Rhode Island : Rhode Island Sheep Cooperative Chepachet.

South Carolina : South Carolina Sheep Breeders Association, Inc., Mountville.

South Dakota :

South Dakota Wool Growers, Faulkton.

Western South Dakota Sheep Growers Association, Belle Fourche.

Tennessee : Tennessee Wool Growers Association, Clarksville.

Texas :

American Rambouillet Sheep Breeders Association, San Angelo.

Texas Sheep & Goat Raisers Association, San Angelo.

Utah :

American Suffolk Sheep Society, Ogden.

Utah Wool Growers Association, Salt Lake City.

Utah Wool Marketing Association, Salt Lake City.

Vermont :

New England Sheep & Wool Growers Association, West Dummerston.

Vermont Sheep Breeders Association, Peru.

Virginia : Valley-Northern Virginia Sheep Breeders Association, Blacksburg.

Washington : Washington Wool Growers Association, Ellensburg.

West Virginia :

American & Delaine-Merino Association, Wheeling.

West Virginia Purebred Sheep Breeders Association, New Milton.

Wisconsin :

Wisconsin Cooperative Wool Growers Association, Milwaukee.

Wisconsin Livestock Breeders Association, Madison.

Wyoming :

Wyoming Wool Growers Association, Casper.

Wyoming Wool Marketing Association, Cheyenne.

The CHAIRMAN. At this point, I would like to place in the record a telegram from Mr. Richard I. Goodrich, president, Boston & Allied Wool Trading Associations, who favors the extension of the act for 7 years.

(The telegram of Mr. Goodrich follows:)

BOSTON, MASS., *June 21, 1965.*

HON. ALLEN ELLENDER,
Chairman, Senate Agriculture Committee,
Senate Office Building,
Washington, D.C.:

As president of the Boston & Allied Wool Trade Associations I endorse fully the position of the National Wool Growers Association supporting a 7-year extension of the National Wool Act of 1954. This act has worked to the satisfaction of all segments of the wool industry including our members. It has also made it possible for the domestic woolgrowers to stay in business and produce the annual wool clip which is so essential for our domestic wool-consuming industry and our national security. I respectfully request you incorporate this telegram in the record of the hearing.

RICHARD I. GOODRICH,
President, Boston & Allied Wool Trade Associations.

The CHAIRMAN. At this point in Mr. Hislop's testimony I would like to put some data in that we failed to put in the record, and a telegram from the National Lamb Feeders Association to me dated June 21.

(The documents referred to follow:)

AURORA, ILL., *June 21, 1965.*

HON. ALLEN J. ELLENDER,
Chairman, Senate Agriculture Committee,
Washington, D.C.:

We strongly endorse the statement to be made by George K. Hislop, president of the National Wool Growers Association for the Senate Agriculture Committee, June 22, 1965. Request this wire be included in hearing record.

C. W. MONI,
Chairman, Board of Directors, National Lamb Feeders Association.

WOOL INCENTIVE PAYMENT PROGRAM UNDER THE NATIONAL WOOL ACT

The wool incentive payment program under the National Wool Act has proved to be a practical and sound method of providing price assistance on wool without adversely affecting the competitive position with other fibers and imported wool. Under the National Wool Act:

1. An incentive price is established to encourage a larger production up to 300 million pounds of shorn wool.
2. The incentive price is accomplished by means of direct payments to growers to supplement what they receive for their wool in the free market and thus bring their income from wool up to the incentive level.
3. The total of the payments up to any time is limited to 70 percent of the total amount of the duties collected on imports of wool and wool manufactures beginning January 1, 1953, to the date of the payments.
4. Commodity Credit Corporation makes the payments and is reimbursed each year by appropriations under the act limited to 70 percent of the duty collections on wool and wool manufactures the preceding calendar year. Amounts not reimbursed are carried as an account receivable to be liquidated in later years.
5. Section 708 of the act authorizes woolgrowers to organize and conduct advertising and sales promotion programs financed by deductions from the payments to improve the demand for the industry's products in the free market.

SHORN WOOL

The incentive price for shorn wool has been set at 62 cents for each of the 11 marketing years the program has been in effect. The incentive price for shorn wool is announced in the summer or fall of the year in advance of the marketing year so that growers may make their production and financing plans accordingly.

Growers sell their wool in normal marketing channels. After the year is over, and the average price received for wool sold during the marketing year is known, direct payments are made to bring the national average price received by all growers up to the incentive level.

By making the payments on a percentage basis, growers are encouraged to improve the quality and marketing of their wool to obtain the best price possible—because the higher the price the individual grower gets in the free market, the greater his total return.

PULLED WOOL

Support for pulled wool is required under the act to maintain normal marketing practices; that is, to prevent unusual shearing prior to marketing just to get the payment on shorn wool. This is being handled by making payments on all sales of unshorn lambs irrespective of whether they are sold for replacement, feeding, or slaughter. Then if the new owner sells the lambs without shearing them, this payment is adjusted downward by the amount due on the weight of the lambs purchased. Likewise, if he shears the lambs and sells the wool, his wool payment is adjusted downward by this same amount. In this way, the original producer and the later feeder or breeder-owner share in the payments.

THIRTY-DAY OWNERSHIP REQUIRED

Payments are made only to bona fide producers. To qualify for a payment the applicant must have owned for at least 30 days the sheep or lambs from which the wool was shorn, or the unshorn lambs sold.

MOHAIR

The National Wool Act provides for the support of mohair by payments similar to those on shorn wool. Except for the 1962 marketing year, prices received by growers for mohair have been above the support level since the inception of the program and payments were not required. Payments for the 1962 marketing year totaled about \$800,000.

The support price for mohair was set at 70 cents for each marketing year until the 1961 marketing year when it was increased to 73 cents to comply with the parity relationship to wool specified in the act. The parity price for mohair

has tended to increase faster than the parity price for wool. Thus, the support price for mohair was set at 74 cents for the 1962 marketing year, 76 cents for 1963, and 72 cents for both the 1964 and 1965 marketing years. Domestic production of mohair has been on the increase since 1952 and is now at the highest level on record: 29 million pounds in 1963, about double the production in the 1950's.

ADVERTISING AND SALES PROMOTION

1. Section 708 of the act provides a method for growers to organize and conduct advertising and sales promotion programs for the industry's products, with such programs financed by deductions from payments to growers. Thus, it enables producers to finance the promotion of lamb and wool. The act also provides that the Secretary may conduct a referendum to determine whether producers approve.

2. This self-help promotion program is carried on by the American Sheep Producers Council, Inc., established by woolgrowers and grower organizations for this purpose. Intensive programs of advertising and sales promotion for both lamb and wool are underway.

3. Growers approved deductions not to exceed 1 cent per pound on shorn wool and not to exceed 5 cents per hundredweight on unshorn lambs each marketing year. This approval was given for financing the programs, by growers in a referendum held in 1955 soon after the passage of the act, and again in referendums held in 1959 and 1926 following extension of the act in 1958 and 1961. Deductions from payments averaged around \$3 million a year during the early years of the program and now amount to about \$2.7 million a year.

TABLE 1.—Number of stock sheep in the United States: Domestic production, imports and consumption of wool

Year	Stock sheep on farms Jan. 1 (thousand head)	Wool production (million pounds)						Imports for consumption (million pounds)		
		Shorn wool, grease basis	Pulled wool, actual weight	Total	Shorn wool, clean content	Pulled wool, clean content	Total clean content	Dutiable raw wool	Foreign trade balance of apparel wool ¹	Mill consumption scoured basis
1942-----	49,346	388	67	455	171	50	221	457.1	1.7	560.5
1943-----	48,196	379	65	444	167	49	216	397.4	-31.4	603.3
1944-----	44,270	338	74	412	149	55	204	344.9	-63.0	577.0
1945-----	39,609	308	71	378	136	53	188	418.0	-44.1	589.2
1946-----	35,525	281	61	342	124	46	170	473.0	-43.0	609.6
1947-----	31,805	251	57	308	111	42	153	259.3	-34.1	525.9
1948-----	29,486	232	47	278	102	35	137	246.2	14.5	485.2
1949-----	26,940	213	36	248	94	27	120	154.9	26.6	339.0
1950-----	26,182	217	32	249	95	24	120	250.1	46.4	436.9
1951-----	27,251	228	26	254	100	19	120	272.0	40.4	382.1
1952-----	27,944	233	34	267	103	25	128	248.5	74.0	346.8
1953-----	27,593	232	42	274	102	32	134	165.7	47.6	358.0
1954-----	27,079	236	44	279	104	33	136	103.9	46.8	269.6
1955-----	27,137	241	42	283	106	31	137	112.8	64.0	281.2
1956-----	26,890	242	41	283	107	30	137	103.8	72.0	296.7
1957-----	26,348	239	34	273	105	25	130	78.2	67.0	240.8
1958-----	27,167	244	30	274	107	23	130	67.1	70.5	212.0
1959-----	28,108	260	35	294	114	26	140	100.5	96.9	264.9
1960-----	28,849	265	34	299	119	25	145	74.3	98.9	246.4
1961-----	² 28,571	261	35	296	118	26	143	90.3	95.2	263.1
1962-----	² 27,065	249	30	279	112	22	135	125.8	112.3	280.2
1963-----	² 25,731	238	29	267	107	22	129	109.2	112.4	251.3
1964 ³ -----	² 24,348	222	25	247	101	18	119	98.4	107.1	233.6
1965 ³ -----	² 23,341									

¹ Raw wool content of apparel wool manufactures, including noils and wastes, imported less exports of such manufactures. During the years 1943 through 1947, the United States was on net export basis of wool manufactures due to the heavy exports of fabrics for military purposes.

² Includes Alaska and Hawaii.

³ Preliminary.

TABLE 2.—*Shorn wool production, market and support prices received by producers for wool and payment rates on shorn wool and unshorn lambs*

Year ¹	Shorn wool production (million pounds)	Received by producers		Payment rates ²	
		Farm price (cents per pound)	Support price (cents per pound)	Shorn wool (percent)	Unshorn lambs (dollars per hundredweight)
1942	388	40.1			
1943	379	41.6	41.7		
1944	338	42.3	42.4		
1945	308	41.9	41.9		
1946	281	42.3	42.3		
1947	251	42.0	42.3		
1948	232	49.2	42.3		
1949	213	49.4	42.3		
1950	217	62.1	45.2		
1951	228	97.1	50.7		
1952	233	54.1	54.2		
1953	232	54.9	53.1		
1954	236	53.2	53.2		
1955	241	42.8	62.0	44.9	0.77
1956	242	44.3	62.0	40.0	.71
1957	239	53.7	62.0	15.5	.33
1958	244	36.4	62.0	70.3	1.02
1959	260	43.3	62.0	43.2	.75
1960	265	42.0	62.0	47.6	.80
1961	261	42.9	62.0	44.5	.76
1962	249	47.7	62.0	30.0	.57
1963	238	48.5	62.0	27.8	.54
1964	222	53.2	62.0	16.5	.35
1965			62.0		

¹ Calendar year for shorn wool production beginning 1943, marketing year for prices and payment rates.
² For shorn wool, percent of net proceeds received by each producer; for unshorn lambs, per 100 pounds liveweight.

TABLE 3.—Wool and mohair payments, 70 percent of duty collections and excess of such duty collections over payments

[In thousands of dollars]

Period or marketing year	Payments				70 percent of duty collections ¹	
	Wool	Mohair	Total		Annual	Cumulative
			Annual	Cumulative		
Jan. 1, 1953, to Mar. 31, 1955					103, 644	103, 644
April to March—						
1955	57, 614		57, 614	57, 614	51, 500	155, 144
1956	51, 915		51, 915	109, 529	51, 626	206, 770
1957	16, 104		16, 104	125, 633	47, 133	253, 903
1958	85, 143		85, 143	210, 776	56, 769	310, 672
1959	53, 865		53, 865	264, 641	68, 072	378, 744
1960	59, 490		59, 490	324, 131	72, 049	450, 793
1961	56, 895		56, 895	381, 026	74, 419	525, 212
1962	39, 195	797	39, 992	421, 018	87, 760	612, 972
April to December—1963	27, 200		27, 200	448, 218	69, 338	682, 272
Calendar year, estimated—						
1964	21, 100		21, 100	469, 318	85, 000	767, 272

¹ 70 percent of all duties collected on imports of wool and wool manufactures as provided under sec. 704 of the National Wool Act of 1954, as amended. From the 1958 marketing year through the 1962 marketing year, totals have been derived by allocating one-half of the reported January to June total to each of the marketing years involved. The figure for the 1963 marketing year is 75 percent of the 1963 calendar year total.

TABLE 4.—Amount of payments, total expenditures, and reimbursements to CCC under the National Wool Act by years
[In millions of dollars]

Fiscal year (July to June)	Total wool and mohair payments		Adminis- trative expenses	Interest on account receivable	Total expenditures	70 percent of duty collections		Reimburse- ment in re- lation to year's expenditures	Amount unreimbursed at end of fiscal year
	Marketing year	Amount				Total preceding calendar year	Reimburse- ment to CCC ¹		
1954-55			.2		.2	2 25.4	.2		
1955-56			2.0		2.0	2 30.1	2.0		
1956-57	April to March— 1955-56	57.6	2.1	1.6	61.3	2 29.7	29.7	-31.6	31.6
1957-58	1956-57	51.9	2.3	2.9	57.2	2 24.5	24.5	-32.7	64.3
1958-59	1957-58	16.1	2.7	1.2	20.0	50.1	50.1	+30.1	34.2
1959-60	1958-59	85.1	2.8	4.7	92.7	67.2	67.2	-25.5	59.7
1960-61	1959-60	53.9	3.0	4.0	60.9	75.3	75.3	+14.4	45.3
1961-62	1960-61	59.5	2.9	3.0	65.4	69.2	69.2	+3.8	41.5
1962-63	1961-62	56.9	3 3.3	3.0	63.2	90.2	90.2	+27.0	14.5
1963-64 (estimated)	1962-63	40.0							
	April to December—1963	27.0	4.0	2.0	73.0	92.4	87.5	+14.5	
1964-65 (estimated)	January to December—1964	21.1	2.2	.3	23.6	85.0	29.8		

¹ Under sec. 705 of National Wool Act, reimbursement is limited to 70 percent of duties on wool and wool manufactures for the preceding calendar year.
² Prior to amendment of the National Wool Act in 1958, the reimbursement was limited to 70 percent of only the specific portion of the duties. The unreimbursed amounts are carried by CCC as an account receivable.
³ Includes approximately \$1 million prior-year adjustments.

TABLE 5.—Number of goats clipped; production and consumption of mohair, in the United States; prices received by producers and payments under the National Wool Act of 1954, as amended.

Year	Number of goats clipped (in thousands)	Million pounds, grease basis				Prices to producers—cents per pound		Mohair payments	
		Domestic production	Imports for consumption ¹	Exports ²	U.S. mill consumption	Farm price	Support level	Rate (percent)	Total amount, (million dollars)
1942	Head 4, 322	20.7	.9	(³)	(⁴)	49.3			
1943	4, 276	20.2	1.0	.03	29.5	57.1			
1944	4, 109	20.4	8.4	.08	19.0	60.1			
1945	4, 291	22.0	.4	.16	16.1	55.3			
1946	3, 939	19.3	1.3	.11	23.4	61.1			
1947	3, 672	18.2	.6	.10	17.9	53.6			
1948	3, 164	16.0	.2	.08	11.5	45.4			
1949	2, 558	13.0	.1	.14	18.5	46.3			
1950	2, 530	13.2	2.2	.11	21.0	76.0	49.1		
1951	2, 472	12.9	2.9	.04	13.5	118.0	53.4		
1952	2, 287	12.2	1.9	.03	13.5	96.3	57.2		
1953	2, 337	12.8	.3	1.08	⁵ 13.2	87.7	60.7		
1954	2, 618	14.6	.1	3.09	11.1	72.4	64.3		
1955	2, 984	16.9		7.38	12.6	82.2	70.0		
1956	3, 151	18.2		14.43	8.7	84.4	70.0		
1957	3, 231	19.1		12.18	8.5	83.7	70.0		
1958	3, 417	20.8		16.11	14.7	72.3	70.0		
1959	3, 755	24.2		22.64	12.2	96.4	70.0		
1960	3, 889	24.5		16.48	6.5	89.7	70.0		
1961	4, 022	26.4		16.49	10.0	85.6	73.0		
1962	4, 241	27.2		15.29	8.6	71.4	74.0	3.6	0.8
1963	4, 372	29.0		17.32	12.0	88.1	76.0		
1964	4, 580	29.8				94.3	72.0		
1965							72.0		

¹ Actual weight.
² Includes alpaca.
³ Included with wool.
⁴ Not available.
⁵ Beginning July 1953, reported consumption included alpaca, cashmere, etc. Hence, beginning with 1953, the U.S. mill consumption of mohair is estimated from reported data on consumption and imports of mohair, alpaca, cashmere, etc.

Payment under the National Wool Act of 1954: Number and amount of wool payments by, size groups, States and areas, and portion of area totals by groups, as reported by ASC county offices for the 1962 marketing year

SHORN WOOL

State and district	Less than \$100		\$100 to \$999.99		\$1,000 to \$2,999.99		\$3,000 and over		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Maine-----	823	\$20,697.85	51	\$8,433.66					874	\$29,131.51
New Hampshire-----	193	5,226.66	20	4,270.48					213	9,497.14
Vermont-----	164	4,575.48	10	2,200.36					174	6,775.84
Massachusetts-----	496	8,194.84	11	2,432.20					507	10,627.04
Rhode Island-----	88	1,506.98	2	226.12					90	1,733.10
Connecticut-----	206	4,614.66	4	523.36					210	5,138.02
New York-----	2,100	71,505.46	326	66,325.91					2,426	137,831.37
New Jersey-----	361	8,039.61	9	1,397.86					370	9,437.47
Pennsylvania-----	4,929	130,128.43	399	68,514.83	1	\$1,023.96			5,329	199,667.22
North Atlantic area, total-----	9,360	254,489.97	832	154,324.78	1	1,023.96			10,193	409,838.71
Portion of area total-----	91.83	62.10	8.16	37.65	0.01	0.25			100	100
Ohio-----	16,964	576,901.57	2,500	467,321.53	13	18,196.33	2	\$7,553.72	19,479	1,069,973.15
Indiana-----	12,778	308,017.23	421	74,493.02	2	2,800.30			13,201	385,310.55
Illinois-----	16,729	385,563.10	620	110,306.02	7	10,505.07	5	34,631.73	17,361	541,005.92
Michigan-----	3,843	154,173.80	1,133	238,021.88	12	17,624.78	1	3,259.22	4,989	413,079.68
Wisconsin-----	5,743	149,966.92	388	68,248.87	2	2,288.97			6,133	220,504.76
East north central area, total-----	56,057	1,574,622.62	5,062	958,391.32	36	51,415.45	8	45,444.67	61,163	2,629,874.06
Portion of area total-----	91.65	59.88	8.28	36.44	0.06	1.96	0.01	1.73	100	100
Minnesota-----	14,505	470,523.64	1,939	368,225.29	12	16,798.93	1	4,461.55	16,457	860,009.41
Iowa-----	23,341	694,038.46	2,759	505,965.67	15	24,210.26	7	39,633.65	26,122	1,263,848.04
Missouri-----	12,142	376,299.96	1,099	200,864.28	9	17,019.56			13,250	594,183.80
North Dakota-----	4,024	174,677.44	2,232	503,378.94	38	53,625.65	5	22,681.24	6,299	754,363.27
South Dakota-----	8,015	337,439.26	4,014	1,066,295.29	268	430,342.71	52	261,132.97	12,349	2,095,210.23
Nebraska-----	4,448	150,025.11	985	236,410.44	21	35,327.94	6	24,539.88	5,460	2,446,303.37
Kansas-----	4,625	150,901.18	1,211	296,783.69	45	72,410.31	5	40,822.40	5,886	560,917.58
West north central area, total-----	71,100	2,353,905.05	14,239	3,177,923.60	4.08	649,735.36	76	393,271.69	85,823	6,574,835.70
Portion of area total-----	82.84	35.80	16.59	48.33	0.48	9.88	0.09	5.98	100	100

Payment under the National Wool Act of 1954: Number and amount of wool payments by, size groups, States and areas, and portion of area totals by groups, as reported by ASC county offices for the 1962 marketing year

UNSHORN LAMBS

State and district	Less than \$100		\$100 to \$999.99		\$1,000 to \$2,999.99		\$3,000 and over		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Maine.....	195	2,841.97							195	2,841.97
New Hampshire.....	13	78.90							13	78.90
Vermont.....	39	530.52							39	530.52
Massachusetts.....	11	138.16							11	138.16
Rhode Island.....	7	82.61							7	82.61
Connecticut.....	6	34.91							6	34.91
New York.....	1,080	19,996.02	24	4,101.27					1,104	24,097.29
New Jersey.....	16	102.09	1	407.97					17	510.06
Pennsylvania.....	1,981	23,811.21	6	1,076.41					1,987	24,887.62
North Atlantic area, total.....	3,348	47,616.39	31	5,585.65					3,379	53,202.04
Portion of area total.....	99.08	89.50	0.92	9.19					100	100
Ohio.....	10,413	160,778.86	80	11,235.69					10,493	172,014.55
Indiana.....	6,628	77,640.60	36	6,103.55					6,664	83,744.15
Illinois.....	8,343	99,368.97	126	16,059.94					8,469	115,428.91
Michigan.....	3,118	56,377.89	36	6,213.08					3,154	62,590.97
Wisconsin.....	2,877	38,300.89	19	2,926.67					2,896	41,227.56
East north central area, total.....	31,379	432,467.21	297	42,538.93					31,676	475,006.14
Portion of area total.....	99.06	91.04	0.94	8.96					100	100
Minnesota.....	10,685	107,218.59	193	34,695.05	1	1,012.24			10,879	205,925.88
Iowa.....	14,089	218,054.78	241	44,355.39	3	3,149.12	1	17,364.57	14,334	282,923.86
Missouri.....	8,143	118,611.33	44	8,927.73					8,187	127,539.06
North Dakota.....	4,807	118,211.22	217	39,928.49					5,025	159,883.34
South Dakota.....	8,849	222,123.19	983	211,205.29			1	11,380.15	9,847	465,663.27
Nebraska.....	3,258	70,462.27	229	47,770.64	6	8,963.60			3,493	127,196.51
Kansas.....	3,962	92,238.74	355	62,428.85	1	1,967.08			4,318	156,634.67
West north central area, total.....	53,793	1,009,920.12	2,262	449,311.44	26	37,790.31	2	28,744.72	56,083	1,525,766.59
Portion of area total.....	95.92	66.19	4.03	29.45	0.05	2.48	(1)	1.88	100	100

Delaware	23	439.32	1	115.60					23	439.32
Maryland	413	5,042.00	48	7,934.53					414	5,157.60
Virginia	5,011	77,319.80	17	2,661.08					5,059	85,254.33
West Virginia	5,180	65,188.22	2	349.24					5,197	67,849.30
North Carolina	723	6,584.28	3	342.02					725	6,933.52
South Carolina	22	218.51							22	218.51
Georgia	60	920.37							63	1,262.39
Florida	3	84.51							3	84.51
South Atlantic area, total	11,435	155,797.01	71	11,402.47					11,506	167,199.48
Portion of area total	99.38	93.13	0.62	6.82					100	100
Kentucky	4,542	89,287.75	66	10,066.43					4,608	99,354.18
Tennessee	3,065	41,132.69	4	570.34					3,069	41,703.03
Alabama	122	2,114.31	1	111.67					123	2,225.98
Mississippi	167	2,609.06							167	2,609.06
Arkansas	247	3,653.98	2	258.81					249	3,912.79
Louisiana	56	906.86							56	906.86
Oklahoma	1,577	31,207.85	36	5,647.14					1,613	36,854.99
Texas	7,845	209,352.73	1,711	440,058.47					9,604	718,623.47
South Central area, total	17,621	380,265.23	1,820	456,712.86					19,489	906,190.36
Portion of area total	90.41	41.96	9.34	50.40					100	100
Montana	2,412	83,826.29	935	260,403.95					3,394	412,077.22
Idaho	1,955	55,947.71	407	124,961.29					2,487	458,040.37
Wyoming	1,658	60,757.72	840	243,436.56					2,615	515,399.68
Colorado	1,863	60,364.89	1,054	301,852.74					3,011	533,717.13
New Mexico	1,891	34,799.52	302	85,599.15					2,209	144,291.11
Arizona	1,853	16,888.82	14	10,483.68					1,889	70,820.16
Utah	1,613	41,776.34	518	179,785.51					2,209	360,229.42
Nevada	81	2,004.75	26	12,041.55					134	64,338.18
Washington	951	22,767.32	81	26,133.05					1,048	83,710.10
Oregon	3,695	79,103.99	184	47,387.43					3,908	177,349.04
California	1,144	36,365.15	437	151,080.62					1,686	408,044.45
Western area, total	19,116	494,602.50	4,798	1,443,165.33					24,590	3,228,016.86
Portion of area total	77.74	15.32	19.51	44.70					100	100
Alaska										
Hawaii										
United States, total	136,692	2,520,668.46	9,279	2,408,716.68					146,723	6,355,381.47
Portion of U.S. total	93.16	39.66	6.32	37.90					100	100

¹ Less than 0.01 percent.

averaging 47.7 cents, payment rate on unshorn lambs was 57 cents per hundredweight of live lamb.

Payment under the National Wool Act of 1954: Number and amount of mohair payments by, size groups, States and areas, and portion of U.S. total by groups, as reported by ASC county offices for the 1962 marketing year

MOHAIR

States	Less than \$100			\$100 to \$199.99			\$200 to \$499.99			\$500 and over			Total		
	Num-ber	Amount	Pounds	Num-ber	Amount	Pounds	Num-ber	Amount	Pounds	Num-ber	Amount	Pounds	Num-ber	Amount	Pounds
Missouri.....	61	\$475.65	25,407										61	\$475.65	25,407
West-North Central area, total.....	61	475.65	25,407										61	475.65	25,407
Virginia.....	2	12.53	696										2	12.53	696
West Virginia.....	4	22.64	1,173										4	22.64	1,173
South Atlan- tic area, total.....	6	35.17	1,869										6	35.17	1,869
Arkansas.....	43	520.43	25,607	1	\$196.04	9,708							44	716.47	35,315
Oklahoma.....	18	368.25	15,334										18	368.25	15,334
Texas.....	5,993	199,521.20	8,055,978	1,096	153,936.61	5,956,307	737	\$222,521.95	8,541,209	255	\$223,010.31	8,473,430	8,081	798,990.07	31,026,924
South Cen- tral area, total.....	6,054	200,409.88	8,096,919	1,097	154,132.65	5,966,015	737	222,521.95	8,541,209	255	223,010.31	8,473,430	8,143	800,074.79	31,077,573
Colorado.....	4	41.40	2,491				1	208.94	11,221				5	250.34	13,712
New Mexico.....	88	1,130.27	53,003	3	493.04	21,203	5	1,390.17	56,194	1	715.75	28,146	97	3,729.23	158,546
Arizona.....	106	715.41	39,127										106	715.41	39,127
Utah.....	16	135.00	8,079										16	135.00	8,079
Oregon.....	46	435.46	34,046										46	435.46	34,046
California.....	26	306.73	15,843										26	306.73	15,843
Western area, total.....	286	2,764.27	152,589	3	493.04	21,203	6	1,599.11	67,415	1	715.75	28,146	296	5,572.17	269,353
United States, total.....	6,407	203,684.97	8,276,784	1,100	154,625.69	5,987,218	743	224,121.06	8,608,624	256	223,726.06	8,501,576	8,506	806,157.78	31,374,202
Portion of U.S. total (percent).....	75.32	25.27	26.38	12.93	19.18	19.08	8.74	27.80	27.44	3.01	27.75	27.10			

NOTE.—Prices received by growers for mohair sold during the 1962 marketing year payments were made at the rate of 3.6 percent of each grower's sales proceeds to bring averaged 17.4 cents a pound, or 2.6 cents below the support price of 74 cents. Hence the national average to the support level.

Production, prices, and income from wool, United States, 1955-64

Year	Shorn wool					Pulled wool production (in thousands of pounds)
	Number sheep shorn ¹ (in thousands of head)	Weight per fleece (pounds)	Production (in thousands of pounds)	Price per pound ² (cents)	Value (in thousands of dollars)	
1955-----	28,149	8.57	241,284	42.8	\$103,040	41,600
1956-----	28,469	8.51	242,177	44.3	107,233	40,500
1957-----	28,415	8.41	239,101	53.7	127,764	33,600
1958-----	29,403	8.29	243,713	36.4	88,632	30,400
1959-----	30,763	8.45	259,939	43.3	112,328	34,500
1960-----	31,064	8.55	265,480	42.0	111,496	33,600
1961-----	30,719	8.50	261,249	42.9	112,330	34,500
1962-----	29,525	8.44	249,065	47.7	118,709	29,900
1963-----	27,875	8.54	238,185	48.5	115,228	28,800
1964 ³ -----	26,411	8.40	221,897	53.2	117,941	25,100

¹ Includes shearing at commercial feeding yards.

² For the years 1955 through 1962, the marketing year was April through March. For 1963, the marketing year was April through December. For 1964, the marketing year was January through December.

³ Preliminary.

The CHAIRMAN. All right, are there any questions? If not we thank you.

Senator HOLLAND. I have two questions I would like to ask. Is there any difference in the position of the sheep producers on this question and the mohair producers?

Mr. HISLOP. No, sir.

Senator HOLLAND. In other words, you speak both for the sheep and mohair producers?

Mr. HISLOP. Most of the mohair is raised in Texas and there is an officer here from the Texas Sheep and Goat Raisers Association who will testify later.

Senator HOLLAND. You don't understand that there is any difference between the two organizations in their approach to this proposed legislation.

Mr. HISLOP. No; there is no difference.

Senator HOLLAND. Now the second question with reference to the Basque shepherders, am I correct in my understanding they are not permitted to be employed other than in the field or grazing operations?

Mr. HISLOP. That is correct.

Senator HOLLAND. You don't have the right to employ them in your slaughtering operations or your feeding operations for lambs or any of the operations other than the field grazing operations?

Mr. HISLOP. Yes; they are only connected with the ewe and lamb and grazing operation, that is all.

Senator HOLLAND. And that limitation is imposed upon their use both by the legislation under which they are allowed to come in and by the supervision of the Agriculture and Labor Departments?

Mr. HISLOP. That is correct.

Senator HOLLAND. Thank you, Mr. Chairman.

Senator COOPER. May I ask a question?

The CHAIRMAN. Yes, Senator.

Senator COOPER. Congress expressed its objective of reaching a production level of 300 million pounds of wool. What progress has been made toward reaching that objective since passage of the Wool Act of 1954?

Mr. HISLOP. We reached a high in 1960 of a production of shorn wool of about 261 million pounds, and then due to bunchings of lambs from the winter feeding season into the next spring season we had a temporary over supply of lambs which broke the market and once into that trend it takes quite a while to come back out again and we are just, I think, about at the bottom of the liquidation trend at the moment so we should start back up again in our production particularly if this bill, S. 994, is enacted.

Senator COOPER. In several places in your statement you talked about factors which resulted in a decrease in flocks. Then you say at another point that considering the growth in population, there should be a larger market for lamb.

If you had factors which have resulted in a diminution of flocks and then on the other hand you say there should be a larger consumption of lamb, what is the cause then of the low price of lamb?

Mr. HISLOP. It was a temporary marketing situation. Lamb must be priced competitively in the market with other meats, such as beef, poultry, and pork.

Senator COOPER. It is all connected then with the general prices of various other meats.

Mr. HISLOP. Yes, sir.

The CHAIRMAN. Any further questions?

Senator MONTOKA. Mr. Chairman, I would like to ask a couple of questions.

The CHAIRMAN. Yes, Senator; proceed.

Senator MONTOKA. Mr. Hislop, will you go in a little deeper on why you object to the graduated payment proposal in S. 1702? I can't get too much from your short statement here on that proposition.

Mr. HISLOP. Well, it is our feeling that as a result of this graduated payment and the way it is worked out, if you were to take the low limit of parity in title IV, which is 65 percent, we could have an incentive price level where the larger grower would get little or no payment.

Senator MONTOKA. Why? What would trigger that situation?

Mr. HISLOP. The decision of the Department of Agriculture.

Senator MONTOKA. Explain how this would work and how you come to the conclusion that the big grower would not get too much benefit from it.

Mr. HISLOP. Well, this is——

Senator MONTOKA. You are stating just a conclusion. I want you to give me the mechanics of how this would work.

Mr. HISLOP. The payment is based on a break of 2,000 pounds, a break after the next 5,000 pounds, and a third classification on the excess over 7,000 pounds. On a graduated basis you would have three different levels at which the grower would be paid. Each grower, even the large one, would be paid for the first 2,000 pounds at one level, the next 5,000 pounds at the next level, and the excess over 7,000 pounds at the third level.

Then, of course, you are involved in the matter of the wool which would be on the lambs. There is a payment also on the lambs, and perhaps some of the growers would buy lambs from other people, and this would have to be figured into it.

It would be a very complicated process, and I believe that there will be a witness a little later who is a little more expert and who has done the figuring on this and perhaps he can answer the question more clearly than that.

Senator MONTROYA. What is the total incentive payment now, say for this last year?

Mr. HISLOP. 16.5 percent of a growers net income from wool sales.

Senator MONTROYA. What does that amount to in dollars?

Mr. HISLOP. To each grower?

Senator MONTROYA. No; totally.

Mr. HISLOP. About 26 million dollars.

Senator MONTROYA. 26 million dollars.

Mr. HISLOP. Yes.

Senator MONTROYA. Under this graduated payment provision would that be reduced?

Mr. HISLOP. If it is reduced——

Senator MONTROYA. You say that the big grower would get less. It stands to reason the total payment would be reduced, is that correct?

Mr. HISLOP. I think it depends on where they set the level; yes, sir.

But they are also increasing it to the small grower.

Senator MONTROYA. To the small grower.

You say there will be a witness here to explain the economics of this thing?

Mr. HISLOP. Yes, sir. He has done the work on it. I have a copy here, but he is more versed in it.

Senator COOPER. Who is he?

Mr. HISLOP. Brett Gray.

The CHAIRMAN. We have six more witnesses to hear on the subject, and if they can devote their attention to the points that I urged a while ago, I think we could get a fair understanding of the problem.

Senator MONTROYA. One more question, Mr. Chairman. What can you tell us about the import of lamb and mutton and how it has affected your industry?

Mr. HISLOP. There is much more mutton imported than there is lamb. The mutton goes into primarily processed meats and more directly affects the sale of beef in processed meats and is in competition with it. The imported lamb runs about 3 percent of our total production in this country.

Senator HOLLAND. What percent?

Mr. HISLOP. About 2.8, I think.

But it isn't the amount that comes in, it is more the location of where it goes and how it affects the marketing picture in this country. We have our northeastern and eastern area as a major sales area and the price here has a great bearing on prices throughout the country. We also have major areas along the Pacific coast which is also a major market area and with the imported lamb coming into these areas it is used as a price depressant far out of proportion with the actual amounts sold.

Senator MONTROYA. Would you say the present rate of imports has more or less influenced a depression of prices?

Mr. HISLOP. Yes, sir.

Senator MONTROYA. Do you think it is exorbitant?

Mr. HISLOP. Well, if you are in business, I suppose any depressant is bad. I am not prepared to say how exorbitant it is at the moment, but it isn't doing us any good.

Senator MONTOKA. That is all, Mr. Chairman.

The CHAIRMAN. Thank you, very much.

Mr. HISLOP. I thank the committee.

(The National Wool Growers Association subsequently submitted the following statement of its position:)

1. The National Wool Growers Association and 103 State and local sheep and wool organizations unanimously endorse S. 994 to extend the National Wool Act for 7 years, with an amendment adding the provisions of S. 2161.

2. The association endorses and urges the Senate to approve S. 2161 introduced by Senator Bible, of Nevada, to amend the National Wool Act by including a formula under which the incentive price level for shorn wool would be automatically established each year.

(a) The formula would adjust the incentive level annually, taking into consideration the changes in the index of prices paid and cost conditions affecting wool production. The years of 1958-60 would be used as the base in calculating the level each year. This base period was selected as wool production increased during these years.

(b) Under the formula, the incentive level for the 1966 marketing year would be increased by 4½ percent, from 62 cents to 65 cents per pound. The incentive level has been at 62 cents since the inception of the program 11 years ago.

(c) The total cost of the program has been substantially reduced in recent years. The modest increase in the incentive level provided for in S. 2161 can be made without costs reaching the level of the early years of the program.

(d) Inclusion of the formula in the act would allay any contention that the level should be increased beyond reason for the purpose of reaching the goal of 300 million pounds of shorn wool as provided for in the present act.

(e) Inclusion in the act of a formula would return to Congress the prerogative of establishing the incentive level for wool.

3. The association opposes the adoption of title IV in S. 1702 relative to the National Wool Act.

The CHAIRMAN. Mr. Crowder.

Senator MONTOKA. I have a statement here which I would like to submit, and in conjunction with my statement a telegram from the New Mexico Wool Growers which is appended.

The CHAIRMAN. Without objection that will be put in the record at this point.

(The statement and telegram referred to follow:)

STATEMENT OF HON. JOSEPH M. MONTOKA, A U.S. SENATOR FROM THE STATE OF
NEW MEXICO

Mr. Chairman and members of the committee, New Mexico, with nearly a million head of stock sheep, is the eighth ranking State in sheep production. With many thousands of semiarid acres in New Mexico, the sheep industry is substantially important because many of these acres produce feed that can best be harvested by sheep and, in some instances, only by sheep.

Many of the people in New Mexico rely on the sheep industry for their livelihood and they have long been subject to the vagaries of weather, predators, and a changing market. Their survival has often hung in the balance.

The National Wool Act of 1954, as amended, has proved an effective means through which many sheep industry problems have been minimized and has been one of the best agricultural programs enacted. It is relatively simple, direct and effective, and there seems no reason to make major modifications at this time.

The 300-million-pound shorn wool production goal established in the act is realistic and should remain a part of the act. We all know that a sheep operator cannot adjust production programs and practices rapidly, so at least a 4-year ex-

tension of the act seems imperative to provide a foundation from which sound plans can be projected.

We also know that the incentive level—the financial guideline for the act—has not been changed from the beginning 62-cent figure. Since 1954, cost of operation has shown a continual upward spiral; therefore, it would seem in order for the Congress to suggest to the Department of Agriculture that the incentive level be raised. Other than this possible change, it would seem realistic and sensible to extend the act in its present form.

I have received a telegram from Mr. Robert F. Corn, president of the New Mexico Wool Growers, Inc., in support of S. 994 which he has requested be entered into the record of testimony before this committee and I wish to make it a part of my statement:

I urge the committee to favorably consider S. 994 to extend the National Wool Act of 1954 in order that our sheep industry may continue to grow and prosper.

ROSWELL, N. MEX., *June 18, 1965.*

Senator JOSEPH MONTTOYA,
Senate Building,
Washington, D.C.

DEAR SENATOR MONTTOYA: I am wiring in regard to the extension of the National Wool Act, which is so important to the wool industry of New Mexico. We are very much in support of Senate bill S. 994. We are opposed to the provisions on wool which are in the present farm bill S. 1702. We are very much in opposition to graduated payments. The National Wool Act was designed to increase production of domestic wool. Graduated payments would tend to decrease production. I thank you for your help in the past and ask that this wire be entered in the record of the hearings on farm legislation.

Sincerely,

ROBERT F. CORN,
President, New Mexico Wool Growers, Inc.

The CHAIRMAN. You may proceed.

STATEMENT OF J. A. CROWDER, EXECUTIVE VICE PRESIDENT AND WASHINGTON COUNSEL, NATIONAL ASSOCIATION OF WOOL MANUFACTURERS

Mr. CROWDER. Mr. Chairman, I am happy to cooperate with you. I want to identify myself as an executive vice president of the National Association of Wool Manufacturers and to say we strongly support the position of the National Wool Growers Association. We feel the National Wool Act has been an excellent development for the entire wool industry and all its segments. We support specifically S. 994 which would extend the act for 7 years without amendment. We are opposed, as are the growers, to the graduated payment proposal outlined by the Department, as well as to the 2-year extension advocated by the Department.

We feel quite strongly that a 7-year extension of the act is in the best interests of the entire wool industry, including our own organization.

Thank you very much.

Senator HOLLAND. I would like to ask a question.

Mr. CROWDER. Yes, sir.

Senator HOLLAND. Aside from the question of the 7 years, because the committee might vary as to the number of years that they would want to extend the act, do I understand that you are strongly in favor of separating this subject dealing as it does with a deficit product, from the omnibus bill in which it is now located which has to do with numerous other problems of surplus, that are surplus commodities.

Mr. CROWDER. Senator, as far as our own organization is concerned, if the omnibus bill receives action at this session, as I assume it will, and if the Wool Act is extended on what we would consider satisfactory terms we would be most happy.

Otherwise, we would certainly hope that the committee in its wisdom would see fit to report a separate wool bill extending the National Wool Act.

Senator HOLLAND. Do you favor separate treatment of the wool industry since it is a deficit product and all of the other subjects dealt with are surplus commodities, and in an omnibus fashion, do you favor the separation out of the omnibus bill of the wool industry?

Mr. CROWDER. I would only answer you from the standpoint of the manufacturers that we are looking for the result rather than the method in which it is carried through the Congress, Senator. The terms of the extension are what are important to us rather than the vehicle through which it is enacted.

Senator HOLLAND. That is all, Mr. Chairman.

The CHAIRMAN. Thank you.

Any further questions?

(The prepared statement of Mr. Crowder follows:)

My name is J. A. Crowder. I am executive vice president and Washington counsel of the National Association of Wool Manufacturers, with offices at 1200 17th Street NW., this city.

I am here to express the support of our association for extension of the National Wool Act, which has worked most satisfactorily from the point of view of wool manufacturers as well as growers. Specifically, we support extension of the act for 7 years as proposed in S. 994, which was cosponsored by 44 Members of the Senate. We feel that a 7-year extension of the act is far more realistic than the 2-year extension proposed in the fall bill.

We support the growers in their opposition to the graduated payment plan proposed in the farm bill. The reasons advanced by the National Wool Growers Association against the graduated payment plan are in our judgment compelling.

American wool manufacturers have been characterized by the growers as "their sole outlet for wool", and with justification. We are important to them. They are important to us. Together we are vitally important to the national welfare and to national security as Congress declares in this legislation.

When we testified in April of 1961 we were able to discern an upward trend in American wool production. That this trend has come to a halt should not be ascribed either to the act or its administration. Among the causes contributing to the shortfall, or pause in upward trend, is the general import situation as it relates to wool textile products, including apparel and made-up articles. As in 1961—and before that—resolution of this grave problem is lacking. Pursuit of a solution continues at the highest level in our Government.

Imports of tops through apparel, the past 2 years, have approximated two-thirds of U.S. shorn wool production.

Given an extension of the act for 7 or more years, given a reasonable program of restraint for low-wage and competitive imports, it is reasonable to predict a renaissance of dynamic, profitable growth in wool production and manufacture that will result in the achievement of the act's national objective.

The CHAIRMAN. Next is Mr. Brett Gray.

STATEMENT OF BRETT GRAY, EXECUTIVE SECRETARY, COLORADO WOOL GROWERS ASSOCIATION, DENVER, COLO.

Mr. GRAY. Mr. Chairman, and members of the committee, my name is Brett Gray and I am the executive secretary of the Colorado Wool Growers Association.

I think in the interest of what you have suggested, sir, that we might look at this chart that I have developed because I believe that it does

point out a few of the important matters that relate to the graduated payment program.

The three columns headed "Size of payment, number of growers"——

The CHAIRMAN. Have you any additional copies of that?

Mr. GRAY. It has been distributed.

(Mr. Gray's prepared statement and chart referred to above are as follows:)

Mr. Chairman, members of the committee, we appreciate this opportunity to strongly support the position of the National Wool Growers Association with regard to opposition to S. 1702 and support of S. 994. We regret we must oppose the view of the Department of Agriculture.

We would like to submit our estimates of the impact on the sheep industry should the graduated payments program suggested by the Department of Agriculture be adopted. The data on the attached sheet, shorn wool program comparisons, was developed this past weekend after we realized that the USDA was not providing this committee with statistics showing the effect, through a shift in payments under the proposal by the Secretary of Agriculture. We did not have adequate facilities or time to develop this data as we would wish. There may be minor errors in calculations.

All data is based on the 1962 marketing year—the most recent year for which the Department has provided figures. It is most regrettable that we do not have information on the 1964 marketing year which closed December 31. Incentive payments for the 1964 year were made beginning in early April of this year.

Referring to the data sheet, the columns headed "Size of payment," "Number of growers," and "Total amount," contain figures direct from USDA data. The balance of the information is calculated on the basis of averages of production and price published by USDA.

It can be clearly seen that the shift in payment is substantial. The individual with a basic sheep operation which could support a family would lose between \$100 and \$600 while the great majority of sheep owners would gain less than \$9. It is extremely doubtful that the small increase offered would encourage the farm flock operator to expand production, but the individual who is in a position to make a real contribution to production would surely be discouraged.

In order to develop information on the value of the National Wool Act to Colorado sheepmen, I asked some 200 of our sheep operators a question: "Was the amount of the incentive payment check larger or smaller than the amount of your gross income before taxes?" Over 90 percent of the answers were to the effect that the incentive check was the largest; so, had the National Wool Act not been operating, more than 9 out of 10 Colorado sheepmen would have lost money on the 1964 operation. The value of the National Wool Act to the sheep industry in Colorado and in the United States is perhaps best demonstrated by a statement made recently by one of the best sheepmen in Colorado when he was asked his view of the incentive payment program. He said, "I don't think of it so much as an incentive payment as a survival payment."

In 1955 and 1956, I worked for the Wool Branch of Commodity Stabilization Service, USDA. Most of my work related to wool program problems in the field and the revision of the program regulations during the first year of National Wool Act operation. I believe I am qualified to judge the difficulties that would be encountered in drafting practical regulations under which graduated payments might be made. The job would be a nightmare. It is my considered opinion that administrative costs—largely incurred at the county ASCS office level—could easily triple. The opportunity for costly errors would multiply and the job of educating ASCS personnel would be tremendous.

We frequently see awards for ideas on efficiency and simplification of programs granted by USDA. Should graduated payments be introduced into the wool program, I am sure that a huge award will some day be made to the employee who recommends a return to the existing program. We see nothing to be gained by tampering with a program that is working well.

Finally, it seems inconceivable that the Department would recommend what I sincerely believe would be an administrative nightmare. We have a program with great merit and we respectfully urge that it be continued with the modifications suggested by the National Wool Growers Association.

Thank you very much.

BRETT GRAY,
Executive Secretary, Colorado Wool Growers Association.

Shorn wool program comparisons, based on 1962 marketing year, Colorado Wool Growers Association, June 22, 1965

Size of payment	Number growers	Payments, 1962 program			Wool production		Payments, proposed USDA amendment						
		Total amount	Percent of total	Average per grower	Total (million pounds)	Average per grower	Percent of total	Total	High range (66 cents per pound)	Middle range (62 cents per pound)	Low range (58 cents per pound)	Per grower	
												Average	Increase or (decrease)
\$100-----	201,834	\$6,249,038	19.1	\$31	43.7	217	23.5	\$7,997,000	\$7,997	0	0	\$39.59	\$8.59
\$100 to \$1,000-----	41,030	10,440,981	31.9	255	73.0	1,783	36.1	12,013,000	7,659	\$4,354	0	293.00	38.00
\$1,000 to \$3,000-----	3,631	6,114,882	18.7	1,685	42.8	11,783	17.2	5,705,000	1,328	2,587	\$1,790	1,572.00	(113.00)
\$3,000 to \$5,000-----	845	3,220,491	9.8	3,669	22.5	25,587	7.9	2,622,000	309	605	1,708	3,103.00	(568.00)
\$5,000 to \$10,000-----	558	3,808,030	11.6	6,828	26.6	47,720	8.8	2,941,000	205	399	2,337	5,254.00	(1,570.00)
\$10,000 to \$20,000-----	167	2,277,226	6.9	13,636	15.9	95,357	5.1	1,702,000	42	120	1,527	10,192.00	(3,444.00)
\$20,000 to \$30,000-----	20	481,916	1.5	24,096	3.4	168,503	1.1	357,000	7	14	336	17,850.00	(6,246.00)
\$30,000 to \$40,000-----	4	136,384	.5	34,096	1.0	238,434	.3	99,000	1	3	95	24,750.00	(9,346.00)
\$40,000 to \$50,000-----	1	44,672	-----	44,672	-----	312,460	-----	32,543	366	715	31,462	32,543.00	(12,129.00)
Total-----	248,090	32,773,620	100.0	132	228.9	923	100.0	33,468,000	17,561	8,083	7,824	143.01	11.01

The CHAIRMAN. While we are looking at it, I had a little statement prepared by one of our economists. The vast majority of the number of farmers who have 25 sheep or less would receive a very small amount even on this graduated scale.

The average clip per sheep is 8.4 pounds or a total of 210 pounds for the 25 sheep. With this additional incentive of 4 cents, this farmer would get \$8.40 more per year than he now gets, and assuming that he would get 90 percent of parity on 25 sheep the largest amount he could receive on a yearly basis in addition to what he ordinarily received would be \$27.30. That isn't much money, and I wish we could work up some more data indicating the extent to which benefits would flow to the smaller sheep raisers.

Mr. GRAY. This is what I have endeavored to do here, sir.

The CHAIRMAN. Good.

Mr. GRAY. And I am interested that your figures came up at \$8.40 because mine were 19 cents different.

The CHAIRMAN. They are not my own figures but I got them from your own witness awhile ago where the average——

Mr. GRAY. My figures came up \$8.59 as the increase that could be expected at that level.

The CHAIRMAN. All right.

Mr. GRAY. There is a possibility that there could be some minor errors in this data sheet simply because I have had to work from averages which, you know, can be somewhat fallacious, and that the most recent data available to me were the 1962 marketing year.

The three columns on the left are lifted directly from USDA data. Then, from that point on, I have made my own computations based on some experience in the matter.

The percent of payments is, of course, very close to the percent of production in the various levels of production and show you distinctly that the lower production group, 201,000 growers, produced 19 percent of the wool. The average payment under the 1962 marketing program was \$31 per grower. Those are rounded figures, of course. The total million pounds of wool that they produced was 43.7 million; the average was 217 pounds.

Now, if we move to the righthand side of the chart; this is the computation I have made based on the figures which we have heard discussed, that is the 66-, the 62-, and the 58-cent graduated payment levels. In the lowest category of production you see that the average payment would go up to \$39.59 or \$8.59 increase. The second category of production would go up to \$293, an increase of \$38.

Then——

Senator HOLLAND. How many sheep would that type of grower have?

Mr. GRAY. This grower, averaging production of 1,783 pounds of wool, would own close to 200 head.

As we move into the third category, you will see that this man would actually begin to lose a little bit of money from the incentive payment.

The third category, the median, or average, on national average production, would be about 1,400 head of ewes. Now, in Colorado, I would suggest that this would be a very bare minimum for a sheep operation. Most of my people seem to feel that they need 15 to 18 hundred head of ewes for what they would call a family-size operation, specifically a sheep operation.

I think that in Senator McGee's State, which covers Wyoming, probably 2,000 would be a basic minimum because they have a slightly different kind of production there. It is more a feeder lamb production.

But as we go into the larger categories of production, we see that the loss becomes substantially more and the percentage of loss, of course, would increase rather sharply.

Now, I did some thumbnail work—incidentally, the total cost of that program as compared with the actual payments under the 1962 marketing year, you see, are not too much different—about a \$700,000 increase in the cost of the program based on these figures.

I believe that people in the Department have stated that it was not their intention to cut the income of the larger growers. So, I began to do a little bit of calculating as to what the effect would be if we raised each of these levels 2 cents, and I am afraid that these are rather rough figures, but the cost of the program does increase rather substantially. It would go up to \$37 million as compared with \$32 million, and this would bring about 70 percent of the total number of growers into approximately the same incentive payment bracket that they were in under the 1962 marketing year. This is the average man that I spoke of who runs just over 1,400 head of sheep.

The men who were in the upper range or the \$1,000 to \$3,000 bracket would lose a little bit of money. Ones in the lower end of that would have a slight increase.

So, even by raising the cost of the program some \$5 million, the sheepman who is in a position to contribute distinctly to an increase in sheep production would not be in the same or better position in terms of incentive payment than he is today.

Now, I would like to point out one other thing.

In 1955 and 1956, I worked for the Department of Agriculture in the wool branch, Commodity Stabilization Service. This was during the first year of operation of the National Wool Act, and my primary job was related to the problems encountered in that brand-new program. I was with the Department until we had developed the regulations for the second year's operation and since that time, incidentally, regulations have been modified very little.

I believe that I can state as a qualified witness that the job of drafting a practical set of regulations under which this graduated payment program might operate would be a nightmare. I spent some time last night trying to work out examples, and the job of reeducating the people in 3,000 county ASCS offices, the job of reeducating all of our marketing agencies who deal in lambs and wool, and certainly the sheepmen, would be quite a tremendous undertaking. I frankly cannot see at this moment how a practical and workable set of such regulations could be put together.

I think we have a good program. I think our problems have been more related to some of the things that have been mentioned before this committee—the spread between what the individual in agriculture gets and what the consumer pays for.

In the sheep business, at the moment, things are looking much better. But we have had—and I just scribbled it out between January and May—we have had a fluctuation in lamb prices of 16 percent from the mean or a total of 32 percent fluctuation in lamb prices.

So, when we reach for a program of this kind we can't expect it to be the full answer, I think this wool act, in combination with learning more about how to market our products may be the answer. I am very hopeful of what may come from the Commission on Food Marketing, I believe that 300 million pounds is a realistic figure for which we might shoot.

The CHAIRMAN. As I figure it, those who grow enough wool to come within the first 2,000-pound limitation would be in the category of the shepherd with 230 sheep, in round figures.

Mr. GRAY. Yes, sir.

The CHAIRMAN. And the entire amount that he would receive, as I pointed out a while ago, would not justify him to keep in the business.

Take the man who holds only 25 sheep, and the vast majority of them do keep that few, there would be little incentive, in my opinion, to that grower at \$8.40 per year.

Mr. GRAY. This is exactly the way I see it, Senator. I don't think that that individual is going to be attracted.

The CHAIRMAN. Is it your considered judgment that if the program is administered under the way provided, I mean under the method provided by the Department it would have the tendency of decreasing the flocks as to the large growers?

Mr. GRAY. Last year, Senator, I made a point of asking approximately 200, that would be more than 5 percent, of the sheepmen in Colorado the specific question as to whether or not the size of their incentive payment was larger or smaller than their gross income before taxes. Over 90 percent of them said that the incentive payment was slightly larger. This means that more than 90 percent of the sheepmen in Colorado based on their 1963 operation would have actually lost money had they not had the incentive payment program.

Of course, since that time, in late 1964 and 1965, lamb prices have come up very nicely. Our people are in a position to make some money today. But if we take this much money away from these individuals, through the graduated payment program then, of course, they are going to be thinking, "Well, in the cattle business, I can run a few more cattle and a few less sheep, I will adjust my operation." Then we are going to compound the problem that we are only just recovering from in terms of tremendous beef production, and I know that this is not going to be good for my State.

The CHAIRMAN. As was stated this morning, our objective when this bill was enacted was to reach that 300-million-pound goal of production. If the program now advocated by the Department would have the tendency of lowering that goal, it would run contrary to the intention of Congress when it enacted the bill in 1954. That is what I hope most of you would be able to offer evidence on. Offhand, as I said, since so many of the farmers or growers produce from 25 to 100 sheep there is little incentive. The incentive to the man who has a flock of 100 sheep would be only about \$32 to \$33 a year. I am just wondering if that would be sufficient to attract him.

Mr. GRAY. Senator, I am certainly not opposed to smaller growers getting more money. As a matter of fact, in Colorado many of our smaller operators, with their ability to do a good job of taking care of the few sheep they have, make a good bit more money per ewe than does the range operator.

But, as you point out they simply are not in the position to move in the direction of increased production to a fractional degree of what our family-sized operations can.

Most of my men now are running, in addition to their sheep, some cattle, and I think that most of them would move back toward sheep if the financial outlook was better and if they felt that there was some stability. I am convinced that Congress could hardly do anything that would give them a greater feeling of security than to extend the National Wool Act along the general lines of S. 994.

The CHAIRMAN. Anything further you desire to say?

Mr. GRAY. No, sir.

The CHAIRMAN. If not, are there any questions?

Senator HOLLAND. Mr. Chairman, it seems to me that the real problem of diminished incentive applies to four brackets shown here in Mr. Gray's statement.

The first bracket from \$3,000 to \$5,000—no, from \$1,000 to \$3,000, the second from \$3,000 to \$5,000 and the third from \$5,000 to \$10,000, and fourth from \$10,000 to \$20,000. They produce about half of the total of the wool, and I notice that in each case going over to your final column, they would operate at a decrease in incentive and that the decrease comes substantially larger if they increase the size of their flock.

Mr. GRAY. Precisely right, sir.

Senator HOLLAND. So it would appear to me instead of encouraging an increased size of the flock it would operate in reverse. Is that the conclusion you have drawn?

Mr. GRAY. I can draw no other conclusion, sir, unless the range of payments was raised substantially, in which case the cost of the program would, in my judgment, endanger it.

Senator HOLLAND. If I understand your position, it is one of not objecting to the small grower getting more for his wool but through the proposed scale under which the medium-sized and the few larger sized growers would get less than they get under the present program.

Mr. GRAY. Qualified with the proviso that realistic and practical mechanics for administration of the program could be worked out, and this bothers me a great deal because I sat and sweated with other people in the Department for 4 months revising what was a relatively simple program.

Senator MONTOKA. Mr. Chairman, do you have any figure readily available to indicate the number of producers in the first category, the second and the third, and the total amount of the reduction of each of these categories?

Mr. GRAY. You mean more current than this, Senator?

Senator MONTOKA. Well, you can base it on that but I don't think it is in the record right now. You just mentioned the first category.

Mr. GRAY. In the first category those who received an incentive payment under \$100, there were 201,834 growers.

Senator MONTOKA. Is that reflected in your table for the three categories?

Mr. GRAY. Yes, sir. In the second column.

Senator MONTOKA. Will you insert that table in the record?

Has that been inserted, Mr. Chairman?

The CHAIRMAN. Yes, I understood it was.

Senator MONTROYA. It is in the record.

The CHAIRMAN. It is in the record.

Very well, any further questions?

Thank you very much, Mr. Gray.

Mr. GRAY. Thank you, sir.

The CHAIRMAN. All right, Mr. Holaway.

Mr. HOLAWAY. Thank you, Mr. Chairman.

The CHAIRMAN. You may proceed, Mr. Holaway.

STATEMENT OF DWIGHT HOLAWAY, DIRECTOR, PRODUCER RELATIONS, NORTH CENTRAL WOOL MARKETING CORP., MINNEAPOLIS, MINN.

Mr. HOLAWAY. Well, in the interest of brevity, perhaps it would be just as well that I didn't read the statement.

The CHAIRMAN. All right.

Mr. HOLAWAY. I would like to say that I am a representative of North Central Wool Marketing Corp., and we represent nearly 30,000 producers. These producers are small producers generally, and market about 8 percent of the Nation's wool. Since we are talking about these small producers, I might say that I think before we start helping the small producers through these increased payments we should know a bit more about this small producer and why he is a small producer.

As I said, we have many members in our organization who have sheep and use them merely as hired men. They are used to clean up the weeds around the farm, in the machinery lots, and on irrigation ditches and so on. For these producers to increase their flocks by a significant number, I would think that they would require a cash outlay, one that couldn't properly be compensated for by the figures that were mentioned a moment ago. They would have to build more fences, they would have to have additional equipment such as panels and sheds. All these things would have to come into play before they could significantly increase their numbers.

Then I would like to further emphasize what Mr. Gray has said, we feel our smaller growers do have a competitive edge over the larger growers. I heard some figures this morning that indicated that it cost Mr. Hislop about \$28 a head to run his sheep through a year.

Well, I am sure that any of our growers would and can get by on a dollar a head a month, so we have a competitive edge on cost, and we also have a competitive edge in the prices being paid for our wool in the fleece area, in the farming area because we are producing a medium wool which is in good demand today. Therefore, I think our average in our fleece area on price would be considerably above the national average.

So we do have a competitive edge today.

Other than that I would just like to say that we do endorse S. 994, and we feel that we have to have a long extension. We are against bill S. 1702 for a number of reasons, we concur with many of the reasons which have been outlined and then my statement contains a few more reasons.

Other than that, I have nothing further to add.

(Mr. Holaway's prepared statement follows:)

It is my privilege on behalf of the North Central Wool Marketing Corp., to urge extension of the National Wool Act of 1954.

North Central Wool Marketing Corp., a cooperative, represents nearly 30,000 producer-members (more than 13 percent of the Nation's woolgrowers) who in 1964 marketed nearly 8 percent of the domestic production. The Wool Act is vital to our members whose clips run from a very few pounds to a few thousand pounds and who generally represent the farming area of the North Central States.

My personal interest in the act is prompted by 33 years in the sheep business, my present continuing financial involvement in southwestern Nebraska, and my employment by North Central Wool Marketing Corp. My personal belief is that without the act our present sheep numbers, which are at the lowest level since the keeping of national records, would be drastically reduced. Then our consuming public would be precariously dependent on foreign imports of both wool and lamb for their needs.

We strongly support the extension of the Wool Act through 1972 as outlined in S. 994. The intent of the act is to increase domestic production of wool. We are fully in accord with this but believe that a realization is very much dependent on adequate time for producers to make long-range plans.

Any upward change in sheep numbers and production, unlike that of grain and most other agricultural commodities, is slow to react to favorable price influences. Although lambs born this spring will produce wool their first year, they must be carried until 1967 before they can reproduce and have an effect on sheep numbers. Therefore, long-range planing is indispensable in a sound and hopefully growing sheep industry.

Under the leadership and encouragement of our agricultural universities in the North Central area, we are beginning to see a trend toward keeping better production records and selective breeding. These management practices are designed to increase profits through weeding out the inefficient and poor producing sheep. These programs are stimulated by and encourage the purchase of outstanding rams that, acquired at no little cost, are generally productive for 5 or 6 years and must be bought on a long-range basis. A short-term extension of the act would tend to discourage and slow these efficient management practices.

The soundness of the sheep business is a little different from that of other industries in our Nation in that it is directly dependent upon producer attitudes which are effected by faith in the future, a feeling of well-being and as much stability as possible under our economy. An extension of at least 6 years is essential to a sound industry.

We feel that we must oppose the wool section of the administration's farm bill, S. 1702, because we believe that the proposed graduated payments would do a disservice to the sheep industry and the Wool Act itself.

We would like to commend the Department of Agriculture for its administration of the act since its beginning. In our opinion it has been fairly, honestly, and economically managed. However, varying payments would somewhat complicate the program's operation and add paperwork for the producer, wool marketing agencies, and the Government, thereby adding to costs at all levels.

There have probably been fewer violations under the National Wool Act by producers than in any of the other farm programs. We do, however, believe that graduated payments will widen the door to more and frequent infringements. We can expect, under the new proposal, large producers to divide the ownership and sale of their clip among members of their family and even in some cases among their hired personnel. Administration costs would naturally rise through increased officework and investigatory personnel. We are not implying that sheepmen are dishonest, only human.

We cannot but feel that graduated payments are incongruous with the basic philosophies and goals of the sheep producer. He, as well as all livestock producers, is dedicated to more production per animal and per unit of feed. Purebred breeders (and we have many who are members) owe their purpose and existence to this precept. Graduated payments would indeed stifle and retard these concepts.

We further believe that graduated payments would penalize those growers who have the management skill, and know-how and the desire to increase the size of their flocks so that they would become more economically efficient, and profit-

able. Industries, business, and labor unions in our country have grown larger because of this favorable climate. Should the sheep industry be treated differently in this respect?

As we have stated, we have many purebred breeders who are members of North Central Wool Marketing Corp. The increase in fleece weight per sheep shorn, the bettering of body conformation and the more efficient feed conversion that we have seen over the years can be credited largely to the purebred breeders of the Nation. The better sales of their rams each year are naturally to the larger operators. If these larger producers are to be discriminated against through graduated payments, the adverse effects will no doubt be felt by this group who have done and will continue to do so much for the domestic sheep industry.

We firmly believe that graduated payments are wrong in principle, discriminatory, and against the intent of the act to increase sheep production through incentive payments.

The Wool Act of 1954 has enjoyed unprecedented support of the entire sheep and textile industry since its very beginning, and an almost unanimous support by farm groups unequaled by any other farm program. There is little doubt that graduated payments would rupture this unity and thereby weaken the sheep industry and its future efforts.

I would like to thank the committee for its help to the industry in the past and for this opportunity to present our views. We respectfully request that you report favorably on the Wool Act as presented by S. 994.

Thank you.

The CHAIRMAN. You are satisfied with the simple extension of the Wool Act as I understand?

Mr. HOLAWAY. Yes, sir.

The CHAIRMAN. All right.

Would you be able to tell us what effect there would be on the production of wool if the Congress were to adopt the administration's bill, 1702?

Mr. HOLAWAY. I would have to say this: I don't think that it would have—our producers, our members of our organization, increase their sheep numbers significantly, and I have to agree that if you are going to take some income away from somebody, there is a tendency to get out of the business, and sheep numbers would decrease.

The CHAIRMAN. Now, what effect would it have on the consumer if the production of wool were appreciably decreased in our country?

Mr. HOLAWAY. Well—

The CHAIRMAN. Do you think the tendency would be for higher prices on importations of wool?

Mr. HOLAWAY. Well, on our wool today, the price is set, of course, on the world market. I do believe that our consumers would be put in a precarious position. I couldn't speculate as to price, but we would be in a precarious position because of dependency upon imports of wool and lamb.

The CHAIRMAN. If we were entirely dependent on imports don't you believe or do you believe that it would have the effect of maybe making us, placing us at the mercy of foreign markets?

Mr. HOLAWAY. I don't believe there is any doubt about it.

The CHAIRMAN. That is the point I would like to bring out.

Mr. HOLAWAY. Yes.

The CHAIRMAN. Any further questions?

Senator HOLLAND. Mr. Chairman, I would like to ask this: Do I understand your organization is composed in the main of small producers who have a few sheep on their farms?

Mr. HOLAWAY. Yes, sir.

Senator HOLLAND. To use as hired men as you very aptly described it and speaking for those small producers you do not favor the graduated approach that is in the administration's bill?

Mr. HOLAWAY. I think we are trying to attain a goal that a few dollars won't attain.

Senator HOLLAND. The main point I am trying to get at you speak largely for the small producers.

Mr. HOLAWAY. Yes, sir.

Senator HOLLAND. And you don't favor the graduated approach.

Mr. HOLAWAY. No, sir; I don't favor the graduated approach.

Senator HOLLAND. Thank you.

The CHAIRMAN. I would also like to place in the record at this point a letter dated June 16 addressed to me from Mr. Dave Means, president of the Northwest Louisiana Wool Growers Association.

(The letter referred to follows:)

GLOSTER, LA., June 16, 1965.

Senator ALLEN J. ELLENDER,
Senate Office Building,
Washington, D.C.

DEAR SENATOR ELLENDER: On behalf of the wool industry of northwest Louisiana, I would appreciate your support of the extension of the present National Wool Act now being considered by Congress.

In the past Congress declared wool a strategic commodity and determined that an annual production of 300 million pounds is essential for the national security.

I believe that an extension of the Wool Act, as it is presently constituted, will enable the wool industry of Louisiana and the United States to better meet the needs of the buying public.

I would encourage you to oppose any efforts to provide a graduated payment to producers or the elimination of production goals.

Thank you very much for your consideration of this matter.

Sincerely,

DAVE MEANS,
President, Northwest Louisiana Wool Growers Association.

The CHAIRMAN. All right, Mr. Magruder.

Mr. Magruder, do you have a prepared statement?

STATEMENT OF G. C. MAGRUDER, JR., VICE PRESIDENT, TEXAS SHEEP & GOAT RAISERS' ASSOCIATION, SAN ANGELO, TEX.

Mr. MAGRUDER. Yes, sir. I have altered it slightly since I have been in here and made it short.

The CHAIRMAN. You may proceed and read it if you desire.

Mr. MAGRUDER. Thank you.

I am G. C. Magruder, Jr., vice president of Texas Sheep & Goat Raisers' Association. The association speaks for 22,000 wool producers in the State of Texas. Texas produces in excess of 20 percent of the Nation's domestic wool supply.

We are opposed to S. 1702.

We object to the graduated payment plan and consider it to be discriminatory to the large producers who are dependent on sheep for their principal source of income. The Edwards Plateau area in Texas is ideally suited for sheep production; however, it is economically unprofitable for an operator to function in the sheep business on a small scale in this area.

We feel that the production goal of 300 million pounds as set forth in the National Wool Act of 1954 should be retained. Under no cir-

cumstances can the Texas producer condone the inclusion of lamb in the Wool Act. The Texas producers do not feel that lamb should be a factor in the extension of the Wool Act.

We favor an extension of the Wool Act for a period of 7 years as set forth in S. 994. A 7-year extension would be an inducement for an individual to stay in the wool producing industry with some assurance of stability.

The Texas growers would like to go on record favoring the extension of the National Wool Act in its present form. We are united in support of S. 994 and urge its expedient passage separate from the omnibus farm bill.

We feel the elimination of the Wool Act would drastically curtail production of wool in this country, thereby placing the United States even more dependent on foreign supplies to meet its requirements which in turn, as you brought out, Mr. Chairman, would be to the disadvantage of the consumers in this country.

We feel the National Wool Act has been proven to be one of the most successful and fair support programs that the Government has entered into in relation to agriculture.

The Texas Sheep and Goat Raisers' Association wishes to go on record endorsing Senator Bible's S. 2161.

Thank you, Senators, for your attention.

The CHAIRMAN. All right, any questions?

Thank you.

Senator YOUNG. Do you represent the mohair producers, too?

Mr. MAGRUDER. Yes, sir; I do.

Senator YOUNG. They are in support of this proposal?

Mr. MAGRUDER. Yes, sir; they are. We speak for both the sheep producers and mohair producers in Texas.

Senator YOUNG. Thank you.

The CHAIRMAN. Thank you very much, Mr. Magruder.

Mr. MAGRUDER. Thank you.

The CHAIRMAN. Mr. Shuey?

**STATEMENT OF EVERETT E. SHUEY, SECRETARY-TREASURER,
MONTANA WOOL GROWERS ASSOCIATION, HELENA, MONT.**

Mr. SHUEY. Mr. Chairman, my statement is about 7 or 8 minutes in length, I think I could highlight it to same time.

The CHAIRMAN. You may proceed. We have plenty of time. I don't want to cut anybody off because this is a very important subject to you.

Mr. SHUEY. Thank you, sir.

The CHAIRMAN. And my whole idea was to simply emphasize the point we raised during the testimony. There is no use of duplication.

Mr. SHUEY. Mr. Chairman, my name is Everett E. Shuey, from Helena, Mont. I am secretary-treasurer of the Montana Wool Growers Association and have held that position for 17 years.

The association includes in its dues-paying membership over 90 percent of the sheepowners in the State. We are now producing approximately 12 million pounds of wool annually as compared to 25 or 30 million pounds in the early 1940's.

Montana, in common with many other Western States, due to its climatic conditions, is naturally favorable to sheep production, but there are thousands of acres of land now being grazed by cattle formerly grazed by sheep, which could and should be used for producing wool and lamb.

During the past 20 years the cattle population has increased from slightly over 1 million head to an all-time high of 2,700,000 as of January 1 of this year. At the same time the sheep population decreased from approximately 3 million head in 1940 to a low of approximately 1½ million head in 1954, the year the National Wool Act was originally enacted.

The passage of the act resulted in a renewed interest in the sheep business. The decline in numbers was halted. In fact by 1960 numbers had started to increase, and, I believe, would have continued to increase if it had not been for a very poor lamb market in 1962 and 1963, coupled with increased costs of production and increased predatory animal problems.

I might say, Mr. Chairman, the sheepman in Montana pays from 10 to 15 cents per sheep, up to a total of \$100,000 to \$150,000, for coyote control.

Mr. Chairman, we oppose the wool section of S. 1702.

We do not believe that the general statement of policy in the present Wool Act can be improved. It is clear and concise. It makes the program mandatory. The substitute language as proposed by the Department would add confusion and make policy subject to conflicting interpretation. We disagree with the position of the Department of Agriculture that the goal of 300 million pounds of shorn wool is unrealistic.

If the incentive payment level had been increased 3 or 4 years ago to compensate for our increased cost of production we could have maintained and increased sheep numbers.

Personally, I was shocked when I read the wool section of S. 1702 after it was introduced, as I was present when Horace Godfrey, Administrator of ASCS, informed representatives of the National Wool Growers Association that the industry would be consulted before any amendments were offered to the present Wool Act. It came as a complete surprise to the entire industry to learn of the drastic changes incorporated in S. 1702.

Senator YOUNG. When you speak of S. 1702, you have reference only to the wool section, do you not?

Mr. SHUEY. Only the wool section.

Senator YOUNG. I noticed that the other fellows appearing for the wool industry have mentioned their opposition to this bill. You have all had reference to the wool section only.

Mr. SHUEY. Just the wool, I know nothing about the rest of the bill.

Senator HOLLAND. What you really want is separate handling of the wool industry through the Wool Act extension and not for it to be caught in a great bunch of other surplus-producing industries as it is in the omnibus bill.

Mr. SHUEY. Frankly, I would.

The CHAIRMAN. Well, Mr. Shuey, you said you had conversations with Mr. Godfrey.

Mr. SHUEY. Mr. Horace Godfrey.

The CHAIRMAN. Were you a member of the advisory committee?

Mr. SHUEY. I was with Mr. Marsh who is executive secretary of the Wool Growers Association.

The CHAIRMAN. Do you have such a thing as an advisory committee on wool?

Mr. SHUEY. Not to my knowledge.

The CHAIRMAN. I thought you had.

Senator YOUNG. Did the National Wool Growers Association ask for hearings with the Department of Agriculture?

Mr. SHUEY. Yes; even as late as May 9 when Mr. Marsh and I met with the Secretary of Agriculture and at that time we asked if we could have someone from the Department appointed as liaison with the industry. Mr. Marsh followed that up by letter to the Secretary of Agriculture asking for someone within the Department that we could work with and it still hasn't been acknowledged.

Senator YOUNG. I was interested in the proposals made by Senator Bible. I don't believe we have any charts here as to how that would work.

Would you explain how this proposal would work?

Mr. SHUEY. Senator Bible's amendment would prescribe in the act a formula for the establishment of the incentive level annually. The formula would adjust the incentive level based on the index of prices paid and cost conditions affecting wool production. The 3 years of 1958-60 would be used as the base period in calculating the level each year. If this bill or amendment were approved, the incentive level for the 1966 year would be increased to 65 cents from the present 62-cent level which has been in effect for each of the 11 years the program has been in effect. We consider such an increase only fair and in accordance with the general policy of the act to encourage wool production.

Senator YOUNG. Do the wool growers generally support his position?

Mr. SHUEY. Yes; they do. We are in the process of contacting the States and every State we have heard from endorses this approach and I expect that such support will be unanimous.

As the law reads today, the Secretary of Agriculture sets the incentive level after taking into consideration price conditions and cost factors after consulting with the industry. This would be removed from the act and the formula inserted would thus return to Congress the prerogative of establishing the support level.

The CHAIRMAN. As I understand, the Secretary is not supposed to have an advisory committee for the renewal or extension of the act. It is only in the case of fixing the price of wool that it calls on advisers.

Mr. SHUEY. That is true.

They just call in industry representatives and in the past they have written to the various organizations.

The CHAIRMAN. Very well. Proceed.

Mr. SHUEY. On June 15, the Secretary of Agriculture in a letter to you as chairman of this committee commented on the Wool Act in his report on S. 994. He stated that, and I quote from his letter:

The wool payment program under the National Wool Act has proved to be an effective method of price assistance and is operating successfully to encourage wool production and bolster farm income. The program was developed with the advice and counsel of all segments of the industry.

I am in complete accord with this statement but it should be emphasized here that the Secretary neglected to inform the committee that the industry was never asked for advice and counsel relative to the changes as proposed in the wool section of S. 1702, nor was the industry ever informed of what the planners in the Department might have in store for us, not even at the House hearings in March.

Mr. Chairman, I participated as an industry representative in helping to develop the original Wool Act in 1954 and also in the work on its renewal in 1958 and again in 1961. I am indeed sorry to see the change in the Department's attitude relative to consultation with the industry. I feel that more realistic and effective legislation could have been proposed if this attitude of cooperation still existed.

Mr. Chairman, we endorse the position of the National Wool Growers Association in opposition to the use of a sliding scale system of payments.

Regardless of the size of a producer's operation, whether he runs 20 or 2,000 sheep, and the average in Montana is about 350 head, they should all be treated alike as they all need help and protection to stay in business.

The administration of sliding scale payments would be complicated and place an undue burden on country offices. I saw an example of how payments would be made and it was five pages long, although Mr. Gray has reduced it down considerable.

The present act has been easy to administer. It is working and there doesn't seem to be any logical reason to change it.

It is my honest opinion, Mr. Chairman, and the opinion of sheep producers in Montana and elsewhere that the removal of the 300-million-pound goal of production and the imposition of the sliding scale system of payments will discourage sheep and wool production. If this is the desire of the Department they have selected an excellent method for carrying out their plan.

If it is permissible, I would like to insert in the record a copy of an editorial from the Wall Street Journal published on June 16 relative to graduated payments.

The CHAIRMAN. If it is pertinent to the issue.

Mr. SHUEY. It is pertinent to it.

The CHAIRMAN. Without objection it will be put in the record at this point.

Mr. SHUEY. Thank you.

(The editorial from the Wall Street Journal, June 16, 1965, is as follows:)

A WOOLLY PROPOSAL

If we recall aright, some of the political science textbooks used to say that one characteristic of a good law or regulation is that it applies equally to all. Whatever they say today, it is plain there have grown up some laws—on taxes and housing, for instance—which do not treat everybody alike.

The anomaly apparently doesn't bother very many people any more, so perhaps it is to be expected that a peculiar program providing for a sliding scale of Government support payments to woolgrowers, proposed by Agriculture Secretary Freeman, doesn't seem to disturb many people either, other than farmers and sheep ranchers.

Now the whole costly price-support system as presently administered is dubious, but the wool proposal pushes the support theory over the brink of absurdity. For the administration plans to make lower support payments to larger woolgrowers and higher payments to smaller growers. Thus a grower

who markets more than 7,000 pounds would be paid between 53 and 66 cents per pound; the smaller grower who markets up to 2,000 pounds would get between 62 to 74 cents.

Possibly smarting under all the criticism that farm schemes up to now have mainly aided big operators, the planners presumably want their new proposal to aid chiefly small producers. But as so often is the case, it would only produce a new inequity. The highest support payments would go to 200,000 growers who produce less than 2,000 pounds a season, raising sheep as a sideline and getting most of their income from other farm output. The lowest would go to about 5,000 growers, mostly in the West, who produce more than 7,000 pounds and depend almost wholly upon wool for their livelihood.

Just this sort of confusion is all too common when the Government seeks to impose its own economic theories on producers by one means or another. And it can be corrected only if all are treated alike, under the workings of a free market system. Otherwise, it's not only the sheep who will keep on getting fleeced.

Mr. SHUEY. The Secretary of Agriculture has stated that the larger producers of wool should not object to making larger payments to the small producer as it would not reduce their payments.

I would like to point out to the committee that it could very easily result in less money as total payments are limited to 70 percent of the tariff receipts on imported wool and in past years the incentive level was not increased due to this limitation.

We are definitely in favor of your approval of S. 994. In fact, our association is on record as favoring an indefinite extension of the act. The original Wool Act as passed by the Senate in 1954 provided for a continuing program.

However, the House version provided for a termination date as it was felt that a new program, such as this was at that time, should be subject to review. As a result the House version was adopted and the first act was for a period of 4 years. We now feel that after 11 years it has proven to be a sound and practical method of price assistance for wool.

We support the principle of S. 2161 introduced by Senator Bible yesterday providing for a specific formula whereby the incentive price level would be established and adjusted annually to reflect the changes in index of prices paid and cost conditions affecting the industry. Sheep numbers increased in the United States during the period of 1958-60 and it would appear that these years could be justified as the base period for such a formula. We would also support a provision or change in the act for a minimum level of support based on parity but such a level must provide for an immediate increase in the incentive level or sheep numbers will continue to decline.

The CHAIRMAN. Would Senator Bible's proposal assist in this price squeeze that all other farmers are suffering from?

Mr. SHUEY. Yes, it would.

The CHAIRMAN. I wish you could find some method to apply that to all of our commodities.

Mr. SHUEY. I wish I could, too.

The CHAIRMAN. Of course, I don't want to have any preference for wool or anybody else, but that has been our trouble.

Mr. SHUEY. I know it has.

The CHAIRMAN. The gross income has been increasingly gradually but the cost of production has increased even more because of the fact that what the farmer buys is so much higher from year to year and it thereby reduces his income, although his gross income is greater.

I wish you could apply it to all. I wouldn't be inclined personally to apply it to one segment of our farming society. I wish you could work out a formula that would be applicable to all.

Mr. SHUEY. I wish I could, too.

The CHAIRMAN. And we would not be in the trouble we are in now.

Mr. SHUEY. I could give you an example of this cost of production. When I was down here in 1954 we stayed at the Congressional Hotel. We paid \$8 for our room, today we are paying \$14.

It would be helpful to our industry if the Congress could act as expeditiously as possible on wool legislation. This is the time of year when a sheep producer must make his decision as to whether or not to increase numbers or to phase out his operation.

You mentioned something about payments and asked us to comment. In 1961 there were nine producers in Montana who received incentive payments of \$10,000 or over.

Since 1962, three of these outfits have liquidated completely. The rest of them have all reduced their operation, and one man who has not reduced because he can't. His is a sheep range, sheep country, it has no water. It is dry country and if he doesn't run sheep he is just out of luck. This shows what has happened and it is plain economics. He can't make any money.

Senator HOLLAND. You mean just one of them is receiving more than \$10,000?

Mr. SHUEY. This was in 1962. I don't know what the payments were for 1964 or 1963. 1963 was a 9-month marketing year. 1962 was the last full marketing year I actually have the figures for.

Senator HOLLAND. How many were receiving it then?

Mr. SHUEY. There were nine operators in Montana who received over \$10,000.

Senator HOLLAND. And how many of them have liquidated their business?

Mr. SHUEY. Three have liquidated their sheep operation. The rest have all reduced their operations. For example, I notice here that the Sieven Livestock Co. was running about 10,000 or 12,000 sheep. They are down to about 2,500 head and have converted to cattle.

The CHAIRMAN. It is normal for a farmer to do that, to switch to the production of a commodity that will bring him the most money.

Senator HOLLAND. Yes; and yet the switch from cattle to sheep or sheep to cattle isn't as simple as lifting from corn to row crops that a farmer must plant in succeeding years.

This is quite an operation involved there.

Mr. SHUEY. If he is a typical operator. I mentioned in my statement that the average in Montana was 350 head, a man with a couple of hundred of sheep, a lot of them only run 50 or a hundred head, can load up 2 truckloads and they go into the auction market and he is out of business.

The CHAIRMAN. Thank you very much.

Any further questions?

Mr. SHUEY. Thank you.

The CHAIRMAN. At this point I would like to insert several letters. One is from J. H. Greene, president, Kansas Sheep & Wool Growers Association, Beverly, Kans., and the other is from the American National Cattlemen's Association of Denver, Colo.

(The letters referred to follow:)

BEVERLY, KANS., *June 9, 1965.*

Hon. ALLEN J. ELLENDER,
Chairman, Senate Agriculture Committee,
Washington, D.C.

DEAR SENATOR ELLENDER: The National Wool Act has been a very effective, sound, and workable law. There is an unusually small amount of criticism from producers against it and the great majority of Kansas producers approve of it with no change.

We, in the the farm flock State of Kansas, urge you to support S. 994 in order to extend the National Wool Act as it now operates for a period of from 5 to 7 years.

The sheep industry has an important place in our agricultural economy and should be encouraged. We particularly oppose the graduated payment proposal of the administration bill. It discriminates against producers with sufficient volume of sheep to be their sole source of livestock income. We are not asking for increased spending, but rather that the conservative help of the present program be continued.

Respectfully yours,

J. H. GREENE,
President, Kansas Sheep and Wool Growers Association.

DENVER, COLO., *April 26, 1965.*

Hon. ALLEN J. ELLENDER,
Senate Committee on Agriculture,
Washington, D.C.

DEAR SENATOR ELLENDER: The American National Cattlemen's Association has closely reviewed the pending Agriculture Act for 1965, S. 1702. The interest of the American National Cattlemen's Association is to insure that the programs for other agricultural commodities don't work undue hardship on the beef cattle industry.

We are, of course, sympathetic with the efforts that have been made by the Congress to resolve many of the economic dilemmas facing agriculture and, particularly, those problems of the so-called basic crops. Administrative flexibility in a program, of course, is sometimes desirable, but we question the advisability of giving the Secretary of Agriculture much wider discretion than before in the voluntary feed grains program. We are quite concerned as this would relate to establishing the loan levels for feed grains.

Obviously, livestock interests in general and the cattle industry in particular would like to see the maximum movement of feed grains into free market commercial channels.

In other words, loan values can be established too high just as they can be made too low. This also has a direct bearing on the price at which CCC stocks can be sold, regardless of the percentage figure, plus carrying charges. There is a delicate balance involved in this whole picture which we feel must be established by the Congress so that minimal manipulation through administrative discretion will be achieved. Feed grain prices that are too high are just as detrimental to the beef cattle industry as are those grains which are priced too cheap. Maximum free market movement, we feel, will give us this goal while holding storage costs to a minimum.

The transfer of allotments as proposed in the pending legislation could work a hardship on younger people attempting to get started in agriculture. If the purpose of the transfer is to develop larger units for the crops falling under its definition, then we are sure it will accomplish that goal either through outright sale of existing allotments or through, lease arrangements. This feature, it seems to us, will be extremely difficult to administer.

Further, in relation to the transfer of allotments, title VI, the question occurs to us as to what purpose the land can be utilized once the allotment is either sold or leased by a second party. Obviously, the value of the allotment has been capitalized into the value of the land. Would it be possible that this would encourage an artificial expansion of the beef cattle industry by making this land available for beef cattle production or does the committee contemplate placing some restrictions on the use of this land once the allotment is sold or leased?

We are particularly pleased to note that in the cropland adjustment section that grazing has been specifically eliminated as one of the alternate uses for these retired lands. We strongly urge that this feature be retained in the legislation.

We also note in the cropland adjustment section that there is a provision whereby some of these lands might be used for recreational purposes by outright purchase. It seems to us that long term leases might be more advantageous since you do leave the properties on the tax rolls to support local governments. In the event the land is purchased outright for recreational purposes, we would recommend a payment in lieu of taxes to the local governments in order that they can sustain their obligations for schools, roads and other governmental services.

We respectfully request that this letter be made a part of the hearing record on S. 1702.

Sincerely yours,

BROOKS J. KEOGH,
President, American National Cattlemen's Association.

(Additional statements on wool filed for the record are as follows:)

STATEMENT OF HON. FRANK CHURCH, A U.S. SENATOR FROM THE STATE OF IDAHO

Mr. Chairman, I wish to express today my concern over title IV of the omnibus farm bill, S. 1702, and to urge the substitution of S. 994, introduced by Senator McGee, in its place.

S. 994, of which I am a cosponsor, would extend the National Wool Act for another 7 years. The benefits and workability of the Wool Act have been expressed by public officials and spokesmen of the sheep industry. As Senator McGee stated when he introduced S. 994, "This legislation is unique, in that it is one farm program which has met with the approval and worked to the satisfaction of all major segments of the wool industry, from producer through manufacturer." President Johnson pointed out in his farm message earlier this year that "the Wool Act * * * has operated successfully to help stabilize wool production and bolster producer income." And the 1965 platform of the National Wool Growers Association expressed the belief that "The National Wool Act throughout its entire existence has been a program that has proven a step toward establishing our industry on a sound basis. It provides additional income for growers and at the same time leaves wool in a position to compete freely in the open market."

Title IV of S. 1702 seeks to replace this tried and effective program with one which would remove the annual production goal and inaugurate a system of graduated payments. It would be discriminatory to full-time wool producers while favoring part-time, marginal producers who are not dependent on sheep production as a main cash crop. Thus it would work to the detriment of the full-time wool producer while promoting inefficiency in wool production.

In contrast to the Wool Act, which is accepted by virtually the entire sheep industry, title IV of S. 1702 is almost unanimously opposed by woolgrowers. As a recent United Press article expressed it, the proposed plan "* * *" appears to be as popular with sheep industry spokesmen as a plan to turn wolves loose on the range." Needless to say, Mr. Chairman, woolgrowers in my State of Idaho, where sheep production is the second largest livestock operation, along with woolgrowers elsewhere, prefer an extension of the National Wool Act to the provisions of the omnibus farm bill. I ask that the letters from seven local woolgrowers associations from my State be inserted at this point.

I would urge this committee to adopt Senator McGee's bill, S. 994, of which I am a cosponsor, in place of title IV of S. 1702.

STATEMENT OF HON. MILWARD L. SIMPSON, A U.S. SENATOR FROM THE STATE OF WYOMING

Mr. Chairman and members of the Senate Committee on Agriculture and Forestry, it has been my privilege to cosponsor a bill, S. 994, which will extend the operation of the National Wool Act of 1954 for a period of 7 years, or up until the end of 1972.

I support the passage of that bill for the following reasons:

First, because this is the one farm program which has met with the approval, and worked to the satisfaction, of all major segments of the wool industry—from producer through manufacturer.

Second, the National Wool Act permits wool to seek its own price level on the open market. The act further encourages the grower to produce quality

wool which will allow him to take advantage of the best market price possible.

Third, the Wool Act is self-financing. Seventy percent of the wool duty revenues are used to pay the costs of supports to producers.

Fourth, the act does not adversely affect our foreign trade.

While the above points are enough to recommend highly S. 994, I wish to address myself to some specific criticisms of alternatives to S. 994 that have been proposed in the administration's farm program. I oppose the proposals of the administration's program dealing with wool. In the first place, the National Wool Act has been the most unique example of farm legislation where the Federal Government itself has not become inextricably involved in the farm business. Under the Wool Act the Government plays no part in wool merchandising. Under the incentive program no wool is acquired by the Government because all domestic production is permitted to flow into consumption and payments are used to maintain producer returns.

One amendment proposed by the administration would give the Secretary of Agriculture an alarming degree of discretionary power by allowing him to modify production goals. A further amendment which would "provide three ranges of price support for wool and mohair," represents the first step of an executive department in its attempt to assume greater control—a step that could lead ultimately to either differentials in rates of payment to producers or total limitation of the dollar value of payments to producers. Such a move should be checked before it is taken.

Further, this administration proposal for graduated levels of support completely ignores the nature of the sheep and wool industry. Most large flocks are found in range areas, such as Wyoming's, where alternatives are limited and small flocks are uneconomical. Thus, the administration's proposal would penalize the producers who are most dependent on wool for their livelihood.

May I conclude, Mr. Chairman, by pointing out that the sheepmen of our country have confronted the problems posed by drought, winter losses due to severe storms, increasing losses from predatory animals, disease losses, and a depression of the market through the importation of dressed lamb and mutton and raw wool from countries with comparatively low production. Our woolgrowers have met these problems and, with the help of the National Wool Act, have seen wool and sheep and lamb production attain a reasonably stable level in the last few years. It is essential that the National Wool Act be extended and continued—without adulteration or modification by administration proposals—so that continuous self-preservation of the sheep industry may be insured.

MAXEYS, GA., *June 11, 1965.*

HON. HERMAN E. TALMADGE,
Senate Office Building,
Washington, D.C.

DEAR SENATOR: We have been advised that hearings on the farm bill are scheduled to commence in the Senate Agriculture Committee on June 16.

We would very much appreciate your support of S. 994 which would extend the National Wool Act in its present form. This program has proven its soundness since 1955 and we see no reason for changing it as is proposed in the farm bill.

Our objections to the provisions on wool in the farm bill are:

1. Graduated payments, which will decrease production rather than increase it.
2. Removal of the production level, which could give the Secretary of Agriculture the authority to discontinue the program.
3. The 2-year extension is too short to give anyone an incentive to go into the sheep business.

We would appreciate it if you could have this letter inserted in the transcript of the hearings.

Thanks for your assistance.

Sincerely,

J. O. ROBERTSON, Jr.,
Executive Vice President,
Georgia Livestock Association.

DOVER, DEL., *June 17, 1965.*

Hon. J. CALEB BOGGS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BOGGS: In behalf of sheep production in Delaware, we would appreciate it very much if you could support S. 994 to extend the National Wool Act in its present form. We understand this bill has wide support from both Republicans and Democrats in the Senate.

On the other hand, we oppose the provisions on the Wool Act which are part of the farm bill, S. 1702. We oppose the sliding scale or graduated payment proposal. If it is established on wool we feel it will in time be extended to all agricultural programs. Also we see no need to remove the annual production goal of 300 million pounds which represents about one-third to one-half of this country's domestic wool needs.

Your assistance on this will be appreciated. We would also like to have this letter appear in the hearings as the official position of the Delaware Sheep & Wool Growers Association.

Sincerely yours,

VERA RAMBO,
Secretary, Delaware Sheep & Wool Association.

LOUISVILLE, KY., *June 24, 1965.*

Hon. ALLEN ELLENDER,
U.S. Senate, Washington, D.C.:

In behalf of sheep production in Kentucky we appreciate your help and support on S. 994, to extend the National Wool Act in its present form. We also feel that our support of S. 2161, which amends the Wool Act, tying incentive level to operating costs, would be beneficial to Kentucky sheepmen. Your assistance in working for S. 994, and its amendment, S. 2161, is appreciated. We would also like to have this wire appear in hearings as official position of the Southern States Wool Marketing Cooperative, with headquarters in Louisville, Ky.

RONALD L. BOTKIN,
Manager, Southern States Wool Marketing Service.

PORTLAND, OREG., *June 25, 1965.*

Senator MAURINE NEUBERGER,
Washington, D.C.:

Pacific Wool Growers, representing 3,000 wool producers, strongly supports S. 994, extending Wool Act, with amendment, S. 2161, and opposes the wool provisions in the farm bill. We urge you to work for the approval of this choice. Request this be made part of hearing record of Senate Agriculture Committee.

BRUCE E. ARNOLD,
General Manager, Pacific Wool Growers.

The CHAIRMAN. Mr. Magdanz.

All right, you may identify yourself for the record.

STATEMENT OF DON F. MAGDANZ, EXECUTIVE SECRETARY-TREASURER, NATIONAL LIVESTOCK FEEDERS ASSOCIATION, OMAHA, NEBR.

Mr. MAGDANZ. Mr. Chairman and members of the committee, I am Don F. Magdanz, of Omaha, Nebr., secretary-treasurer of the National Livestock Feeders Association.

Mr. Chairman, you will probably note that my statement is rather lengthy. I do not intend to impose on you and the committee by going through it word by word.

If it is agreeable with you, I will just highlight the statement which will only take a few minutes.

The CHAIRMAN. Very well, sir.

You may proceed in that manner and the whole statement will be put in the record.

Mr. MAGDANZ. I would request that as it is.

I would first like to say that my reason for being here is to represent the people engaged in the feeding of livestock for the slaughter market in which position they not only produce but use a large portion of the feed grains that are utilized in the United States each year.

FEED GRAINS

Feed grains, of course, are raw material in the production of the Nation's meat supply and for that reason we have a vital interest in feed grain legislation which may be enacted by the Congress. Our people have deliberated seriously and at length for quite a number of years in regard to policy on feed grain legislation, and they do very definitely embrace a voluntary approach to feed grain legislation.

They also feel we should avoid concentration of authoritative power over feed grain production insofar as possible, not only production but marketing, in the hands of Government administrators.

We would like to see the free working of economic forces to determine land use to the greatest extent possible, and we would also like to see the programs devised that will provide a definite procedure toward gradual withdrawal of the Federal Government aimed at eventual termination of Government administrative programs to the extent that that is feasible and possible.

The CHAIRMAN. If that be your attitude, why do you want to have price supports?

Mr. MAGDANZ. We have had a price support program for a great many years, Senator. I don't know how long it has been, but——

The CHAIRMAN. We have had that special support since 1961.

Mr. MAGDANZ. Yes, and our feeling is——

The CHAIRMAN. A very fine program for the corn growers, they are all for it but the cost of it is very expensive and that is one of the programs that I thought ought to be reduced some way. The cost of that program this year would be in excess of a billion 400 million dollars to the taxpayers, and it is such costs as that that may affect other fine programs that we have on the statute books.

Mr. MAGDANZ. We share your concern, Senator, which we know is a very dedicated and sincere one.

We embrace a voluntary approach to this matter because of the fact we feel—we feel it would be disastrous to discontinue price supports suddenly and that is our only reason for embracing this approach.

We feel that a voluntary program will permit us to progress further in the direction of reduced stocks. We have already progressed very definitely since 1961, and a continuation of something similar to what we have at the present time, we feel, will put us in a position where we may be able to eventually achieve the policies that we have set out.

The CHAIRMAN. That statement was made to this committee back in 1961 when we enacted the special program. At that time we had 84-plus million tons of feed grains on hand, and the idea was to reduce them.

Well, after 2 years, they came back with the same song, give us another try. We extended it for 2 more years.

Now, the 4 years have expired and you now ask for 4 more years, and the costs of the program, as I said, were \$5.4 billion for the past 4 years, and the reduction in surplus has been only 28 million tons and that is a cost of almost \$6 a bushel to the taxpayer.

How can you defend that, I would like to know.

Mr. MAGDANZ. That is correct, sir.

There is no question about it. The point is, though, that in 1961 was the first year we started in the opposite direction from the cumulation of stocks that began in 1952.

The CHAIRMAN. We might as well burn it up rather than let it be fed at \$6. We might as well get it all in a big pile and burn it up. It would have been cheaper for us to do that, than to pay at the rate of \$6 a bushel to curtail your surplus by only 28 million.

Mr. MAGDANZ. The matter of destroying it or getting rid of it has been suggested but I think we both know that wouldn't be very palatable or feasible.

The CHAIRMAN. This program, to be frank with you, is as bad if not worse than the old wheat program we had on hand here. It took this committee 6 or 7 years to change it. I fear now that this corn program is in here to stay according to the proponents of it.

Mr. MAGDANZ. It is not our desire, Senator, to see it stay. We do feel——

The CHAIRMAN. But you want 4 years more, you have had 4 years of high cost, and this year, it will be higher than last year, a billion 400 million, and to continue it for 4 more years, my guess is that it will continue to cost more and more as you go along.

Mr. MAGDANZ. We are not asking for a 4-year extension, Senator. We do believe that it is wise for the Congress to renew something that is in effect, at least something of this kind, and a shorter period of time would certainly be within our feelings of proper procedure.

The CHAIRMAN. Proceed.

Senator YOUNG. Do you feel that the price of corn has anything to do with the price of cattle?

For example, if you had a great abundance of corn, let's say, at 25 cents a bushel less than it is now for the next 5-year period, wouldn't that mean that cattle prices would go to a lower level, too?

Mr. MAGDANZ. We used to have, Senator, quite a step-by-step relationship between feed grain prices and livestock prices. This step-by-step relationship has more or less disappeared. It occurred about 1956, if I remember correctly, when we saw feed grain prices and livestock prices going in the opposite direction, and this was not generally true before that time.

Now, this is not to say, however, that the livestock industry may not be in a better position, over the long pull, with more realistic and reasonable feed grain prices.

Senator YOUNG. Do you feel it important to stabilize feed grain prices?

Mr. MAGDANZ. As long as we have a government program that is entering into the price structure, why certainly we must look to some stability.

If we don't have a program we would readily admit, of course, we could have flexible feed grain prices.

Senator YOUNG. You haven't answered my question.

Let me give you a little more extreme case.

Supposing you had a great abundance of 10-cent corn over the next 3- or 5-year period, wouldn't cattle prices drop sharply?

The CHAIRMAN. What kind of corn did you say, 10 cents?

Senator YOUNG. I am thinking of an extreme case.

The CHAIRMAN. We never had that since I have been on this committee.

Senator YOUNG. I merely give him an extreme case to bring out his thinking.

He doesn't answer my previous question on the relationship of cattle prices to corn prices.

Mr. MAGDANZ. They do have a relationship but it is not the step-by-step or month-by-month or year-by-year relationship they used to have.

For example, we had lower cattle prices a year ago and the year before that and our feed grain prices at that time were approximately the same as they are today. Feed grain prices are a little higher but not appreciably so, and yet we had what we called disastrously low prices for cattle.

Now then, if the relationship that used to exist, existed today with the price of feed grain on the market that it was last year and is today, we would not be able to look forward to 25-cent hogs, which we now have. So for this reason I would have to answer your question in still a qualified way, of course, because we do not actually know, but by saying that lower feed grain prices might not necessarily cause livestock prices to go down.

Senator YOUNG. Well, you are unfortunately like many of the farm leaders today who really don't speak for their average membership. I don't think you are speaking for the average feeder and I do not believe most of the farm leaders who say they speak for the average farmer actually represent these farmers.

My sons happen to be in the cattle feeding business at the present time and I have been closely associated with it all during my life. I don't think you speak for the average feeder.

Mr. MAGDANZ. Senator, we have many feeders in our own association who are very modest in size and also we have many members who are large feeders.

However, the things I present to you are matters that have been taken up in local meetings, in State meetings, and national meetings.

Senator YOUNG. That is what the leaders of all of the farm groups say when they come before this committee.

Mr. MAGDANZ. It is a policy that has been determined in that way.

The CHAIRMAN. Well, the price of corn and other feed grains has been steady in the last couple of years.

Mr. MAGDANZ. That is right, sir.

The CHAIRMAN. But notwithstanding that the price of hogs has gone up as you have just indicated and the price of cattle have gone up.

In fact, the price of poultry has gone up.

Mr. MAGDANZ. Correct, sir.

The CHAIRMAN. It is my belief that too many corn and other feed grain growers are going into the business of growing feed for sale

and not feeding the cattle and hogs on their own farms. That is what I am opposed to here. If you make a program so inviting that people will grow corn just to sell to Uncle Sam I think we ought to draw the line.

It has always been told to me—I have been on this committee now 28½ years and I have always been told that the reason why you can't put controls on the production of corn is that 85 percent of the corn and other feed grains is fed to the farm.

If that is true, we would not have had the accumulation that we have suffered in the past 7 or 8 years.

This attractive program that we have had on the statute books for the past 7 to 8 years has been an inducement to the corn grower to grow more and more feed.

Mr. MAGDANZ. I think perhaps the statement that has been made, Senator, about 80 percent of the corn that is grown is fed on the farm, that a more accurate statement would be, if this figure of 80 percent is correct, that 80 percent of it that is utilized in the United States is fed to livestock.

The CHAIRMAN. Let me give you the most recent ones now about corn in particular.

Mr. MAGDANZ. All right, sir.

The CHAIRMAN. In 1961, 59 percent of corn grown on the farm was fed to livestock.

Today it is down to 53 percent.

Mr. MAGDANZ. These figures I am not familiar with.

The CHAIRMAN. They are from the June "Feed Situation." In any event, programs of that kind are the ones which are so costly to the taxpayer. Some day they will be a death blow to all of our programs. I keep on pointing out that in the House of Representatives you have today the majority of them representing city people, who believe that the farmer is holding them up. They are getting too much subsidies.

I don't believe that but many do, in sufficient number to the extent that these programs may be sidetracked. The farmer then is going to be in a heck of a fix and so will the consumers, and I don't want that to happen.

Mr. MAGDANZ. We appreciate your concern, and we are also aware of the philosophy.

However, we have one or two other ways to go, and that would be; one, to discontinue them completely, which I think that you and I and everyone else agree would not be wise as you have just said; and the other would be to go to a mandatory production control program, and this very frankly we are fearful of, because we feel that if this should occur, we will have agriculture in that type of confined atmosphere for as long as any of us are still in the business.

The CHAIRMAN. Well, the corn growers have never consented to controls of any kind. They want to be left free, more or less to grow the amount they want on the acreage they desire and have the Government support their prices.

Mr. MAGDANZ. We think that contributing to this difference in philosophy between feed grain producers and tobacco growers, for instance, or wheat growers, is simply that the corn and feed grains is a raw material in the production of another product. It is not in itself, except for a small quantity that goes into manufactured breakfast foods and so forth, a product consumed by human beings.

In other words, it is a raw material in the production of something else. We have such a wide flexibility in the operation of a farm, particularly a livestock farm. I am not aware of the trend from feeding on the farm to just growing feed grain for profit. I don't mean to dispute it but I was not aware this was taking place except in perhaps——

The CHAIRMAN. There is bound to be since we have such an accumulation of it.

Mr. MAGDANZ. We also have had people who did this, Senator, who merely grew feed grain and sold the feed grain for a long time. My point is I am not aware of the fact there is any trend toward an increased number of people who are doing this.

The CHAIRMAN. But they are planting more land and their production per acre has increased gradually for the past 5 or 6 years.

Mr. MAGDANZ. Very definitely.

The CHAIRMAN. Something that I am happy about, but I go back to the proposition, that the cost to the taxpayers is such that it may affect other very worthy programs.

Mr. MAGDANZ. We appreciate this possibility, but we still must return to the fact that since 1961 we have reversed the trend that started in 1952 toward the increase in stocks each year, and without deviation we increased those stocks until the carryover in 1960, which I believe was 84 million tons.

The CHAIRMAN. And now it is 56 after spending \$5.4 billion under these special programs.

Mr. MAGDANZ. Up to that time, as I say, we had production out-running utilization every year, and it was in 1961, when we reached a higher plane with both production and utilization, that utilization went above production, and this is the first time that has happened since 1952.

So, this gives us considerable——

The CHAIRMAN. Well, the reason for it, of course, is that over 25 million acres were diverted each of the last 4 years. That is what caused it. And now we are giving you a support price for those who comply of a dollar and a quarter a bushel and then paying you not to plant, and with all of that, yields have increased on the number of acres planted.

Mr. MAGDANZ. Very true, except, that as I say, we think now that moving in the other direction, we are eventually going to work out of the problem. It may continue to cost some money to do so, but——

The CHAIRMAN. Not if you make it more and more attractive and let them make money as they are now.

Mr. MAGDANZ. We are not advocating any increase in return, any increase in loans or any increase in diversion payments or anything of that kind.

The CHAIRMAN. Well, I say it is the diversion payments, other costs, in the past 4 years that have caused this huge cost to accumulate.

Mr. MAGDANZ. I think, though, we will all need to admit that the big problem in this situation is the fact that we do have these stocks that are constantly hanging over the market, and we got into the situation without this kind of a program. Now it appears as though we are getting out of it, and we would like to see the opportunity for us to get clear out of it under this type of a program rather than

resort to something that is mandatory under which I am sure we would never get out of and we would be in forever.

The CHAIRMAN. If it is good for cotton, if it is good for peanuts, if it is good for wheat, then it is good for corn.

Let's proceed; there is no use arguing that, because we will do that on the Senate floor.

Mr. MAGDANZ. All right, sir.

I see the time has reached 12:30, so if I can just touch on the other points that we make in our statement. In further support of this voluntary approach, we have taken S. 1702 and discussed it title by title, that is the titles with which we are primarily concerned.

The CHAIRMAN. That is corn and other feed grains.

Mr. MAGDANZ. That would be title II on feed grains, title V on land use adjustment and title VI on transfer of allotments. You will find each one of these titles discussed in the statement that we are filing for the record.

Also, we would like to——

The CHAIRMAN. Do you favor the sale of allotments?

Mr. MAGDANZ. No, we do not, sir.

The CHAIRMAN. Do you favor this land adjustment?

Mr. MAGDANZ. No, we do not favor the land adjustment.

The CHAIRMAN. All right.

Mr. MAGDANZ. In conclusion there are several other things that I would like to comment on.

One is the matter of a release price for commodity credit stocks on which there have been proposals, both legislative and otherwise, to increase the amount.

The CHAIRMAN. What is your suggestion?

Mr. MAGDANZ. We do not favor any increase. We recommend leaving it at 105 percent of the loan rate for the reason that raising the release figure would defeat the purposes of this program by merely increasing Government stocks while we are trying to reduce them. Furthermore, it would bring another price influencing factor into the situation, perhaps at different times of the year.

Then, just very briefly we have asked——

The CHAIRMAN. Take your time. It is all right, go ahead.

Mr. MAGDANZ. We have suggested or we would like to suggest in just a few paragraphs at the end of our statement that on occasion in the past there have been some preferential freight rate treatment given in the transporting of feed grains out of the traditional feed grain producing areas into deficit producing areas and we feel this is not an advisable procedure, and hope that it will not occur again.

We also recommend that farm and country elevator storage be used to the greatest extent possible. Not only will that—farm and country elevator storage I should have said if I did not do so—be an aid in the improvement of farm income but also in the improvement of the community where the grain is stored; this in preference to transporting grain long distances to central storage places and huge warehouses as is often done.

Then, the last point——

The CHAIRMAN. Wouldn't you dispose of more corn by making it more available to these deficit-producing areas?

Mr. MAGDANZ. Yes, you might do so, Senator, but our basis philosophy in this whole situation has to do with the matter of producing livestock, producing grain, and producing these other crops in the localities and the areas where it is economically feasible to do so. Transporting out of traditional grain-producing areas brings in another factor that contributes to development, or possibly even expansion, of an industry in another area where it may not have been economically feasible to produce grain. But by getting ahold of some of this grain from the traditional areas, the feeding business can be expanded over what otherwise might be the case.

The CHAIRMAN. But even where you grow corn traditionally for livestock feeding, isn't it to the advantage of the Government to find markets for the excess corn that you grow on a basis wherein you don't want to be controlled in this growth?

You seem to desire to let farmers produce on as many acres as they want to on a basis that to me is wrong when you consider the programs that have been on the statute books for other commodities throughout, since I have been on this committee.

Take the 1938 act, I helped father that, corn was treated separately; that is, the method to be applied to corn was different from any other commodity, and up to now corn has remained in that status. We have continued to permit corn farmers to have a voluntary program, and they have never had marketing quotas or penalties of any kind as other commodity growers have.

It strikes me and I repeat it, I want the record to be filled with it, that any farmer who desires his Government to support the price of the commodity he produces should be willing to agree to produce within our requirements and that is all I am asking.

Mr. MAGDANZ. Well, very frankly, Senator, we feel, along with many others, not only in agriculture, but in the Congress, as well, that you cannot apply the same type of production control programs to a raw material that you can apply to a consumers product, particularly when it—

The CHAIRMAN. I would like to believe that. I just can't see it. I may be blind but I just can't see it.

Mr. MAGDANZ. That, Senator, concludes the summary that we are happy to give you rather than to go through our statement word by word.

The CHAIRMAN. All right.

I thank you very much for your appearance.

(Mr. Magdanz's prepared statement follows:)

Mr. Chairman and members of the Senate Committee on Agriculture and Forestry, on behalf of the National Livestock Feeders Association, I appreciate the opportunity to appear before this committee to discuss our views and opinions relative to feed grain and wheat legislation pending before the Congress and more specifically including S. 2110, S. 1702, and related bills. I am here today to represent people engaged in the business of feeding and finishing livestock for the slaughter market in which function they use the major portion, and, in fact, produce a large portion, of the feed grains utilized in the United States each year. Since feed grains are a raw material in the production of the Nation's meat supply, the people I represent have a sincere and vital interest in the feed grain legislation which may be enacted by the Congress. Our concern is not so prominent with respect to wheat legislation since wheat is largely used for human consumption, except as provisions in such legislation may affect feed grains and the conduct of feed grain programs.

GENERAL STATEMENT OF ASSOCIATION POSITION

Though we have stated our association policy on feed grain legislation to this committee in previous years, I would like to insert at this point in the testimony several brief statements of position. Contrary to comments heard on occasion, the vast majority of livestock feeders are in favor of reasonable prices for feed grains in contrast to cheap or low cost feed grains. It goes without saying that the agricultural segment of the economy is not benefited by feed grain prices that are too low. Historically, the general health of the livestock feeding business is not improved when prices and costs of feed grains are at a depressed level, even though there does not appear to be the step by step short term relationship between livestock and feed grain prices which existed at one time.

On numerous occasions, though, our members have declared that a Government program for feed grains meet the following conditions:

- (1) Be voluntary with respect to participation by the grower;
- (2) Avoid the concentration of authoritative power over feed grain production and marketing in the hands of Government administrators;
- (3) Permit the free working of economic forces to determine land use; and
- (4) Provide definite procedure for gradual withdrawal aimed at eventual termination of Government administrated programs.

Some may regard these policies as idealistic and unattainable, but I would hasten to point out that the President of the United States expressed these positions in a general way in his message to the Congress on February 4, 1965, when he included the words in one recommendation. "* * * our objectives of increased freedom of operation, a steady improvement of income, a greater reliance on market forces, and lower Government costs."

Furthermore, having visited with quite a few Members of the Congress, I am sure it would be accurate to say that these objectives are embraced by many of the Congressmen and Senators as well as by a great number of people engaged in agriculture. The real problem, of course, is how to achieve the policies we have outlined and the objectives to which I have referred with a minimum of repercussion and adjustments in the industry.

In trying to resolve this problem, I think we must face up to the fact that all phases of the overall objectives cannot be achieved simultaneously, and will need to be considered in stages with probable sacrifices for a period in some respects in order to achieve the goal eventually. For instances, it probably means that Government costs cannot be lowered simultaneously with a steady improvement in incomes. Nevertheless, it should be possible to take aim on a target time in the near future and gear a program directly to Government withdrawal from the price support functions now being performed and accomplish these results with minimum economic impact at the time.

Mandatory production controls versus voluntary approach

The concept of mandatory controls if producers are accorded price supports versus a voluntary price support program requires very frank and careful consideration. These differences in approach were debated extensively in 1962 at which time this association opposed vigorously a program providing for mandatory production controls and pointed out what we considered to be its undesirable features.

At this time we wish to reaffirm our reasons for these objections and also to emphasize our arguments in favor of a voluntary program. We contend that absolute controls on feed grain production would not satisfy the objectives which have been expressed, with the possible exception of costs involved, and certainly do not conform to the views and position of our people.

In the first place, it must be admitted there would immediately be increased Government participation in the feed grain business instead of less activity and influence. Furthermore, a mandatory program would amount to an absolute departure from any reliance on free market forces, from freedom of individual operation, and would certainly concentrate authoritative power over feed grain production and marketing in the hands of Government administrators.

It must be admitted that a mandatory program might lower Government costs. However, there would still be the expenses of administration of a vast and extensive undertaking, expenses involved in storage, and certainly there would be costs involved in enforcement. It is our opinion that any lower costs involved would not compensate for the other objections to a mandatory approach.

We would need to acknowledge that under a mandatory program the price of feed grains could be established for the volume produced, and, conceivably could be set at most any figure. However, even though higher prices were established for a reduced volume of production, this would not necessarily result in higher total farm income. Such an approach would be particularly adverse to the farmer who produces grain to feed his own livestock, and neither puts grain on the market nor channels it into Government storage.

In making these arguments, we are not unmindful of the provision in proposed legislation requiring that a mandatory production control program would not go into effect unless approved by two-thirds of the producers in a referendum. But regardless of the outcome of the referendum, feed grain producers would be better off to return to the provisions of existing law.

For these reasons, Mr. Chairman, we firmly believe it would be unwise to move in the direction of a mandatory control program for feed grains.

In behalf of the voluntary approach, which has been in effect since 1961, we would acknowledge that a voluntary program does not satisfy all of the objectives which have been expressed, but we do submit that its advantages outweigh its disadvantages. Though the Congress has not specifically taken aim on a target time when Government participation might be terminated, nevertheless the voluntary approach permits moving toward a time when the Government can reduce its activity in the feed grain area. Certainly, it allows for individual freedom of operation and permits the working of economic forces to a degree in the determination of land use.

Again, we would need to acknowledge that the cost is higher than would probably be the case under a mandatory production control program. However, much of the cost arises from the storage of surplus stocks, a cost that would not be immediately eliminated under a mandatory program and which, for the most part, does not revert to feed grain producers.

In assessing the merits of the current voluntary feed grain program, it is both interesting and highly significant to note that the relationship of feed grain production to utilization of several years standing changed the very year the original "emergency" program went in to effect. Beginning in the marketing year of 1951, production exceeded utilization each year until 1961, resulting in a consistent annual increase in carryover stocks. This was reversed in 1961, the year the original version of the current voluntary program went into effect, and during that year for the first time since 1951, utilization exceeded production.

Admittedly, the feed grain program has not been entirely responsible for this "switch" in direction of carryover buildup. It is accurate to say, however, that the upward trend of production of many years has at least leveled off—if not reversed itself—since the "emergency" program first became effective, and this has occurred at a level of production below annual utilization.

The above development leads to conclude that drastic changes in legislative approach are not necessary or justified with respect to feed grains. We are now definitely moving in the direction of correcting the carryover problem.

Additional reasons this association embraces the voluntary approach to the feed grain problem are contained in the following discussion of the sections of S. 1702, with which livestock feeders are directly concerned, title by title.

TITLE II—FEED GRAINS

The National Livestock Feeders Association generally supports the basic purposes and provisions of title II of H.R. 7097. However, the association strongly recommends certain amendments and changes in the language, particularly with respect to guidelines of authority in the administration of the feed grains program and the deletion or amendment of the substitution provisions governing wheat and feed grain acreages.

The feed grains title (title II) of S. 1702, known as the Food and Agricultural Act of 1965, provides, primarily, for an extension of the existing feed grain program for an additional 2 years. Therefore, the basic legislative concepts (voluntary provisions) for feed grains embodied in S. 1702 are in harmony with the underlying policy instructions of our members. The feed grains program now in effect has proven to be a reasonably workable program. A respectable number of feed grain producers representing a meaningful volume of acreage have participated in the program and measurable progress has been made in reducing storage stocks of these commodities. Furthermore, those persons who have participated in the program have found its provisions to be workable from the practical standpoint of the participant.

Any Government program involving price supports and acreage diversion does have an impact on market prices, of course. However, experience has indicated that the present program, when properly administered, has probably kept this influence at a minimum.

The association is concerned with the amount of additional administrative authority embodied in the proposed changes and additions as set forth in title II of the proposed legislation and, also, the association strongly opposes retention of the substitution provisions as written governing wheat and feed grain acreages. Recommendations with respect to these two areas are contained in the following sections of this statement. We respectfully request your thorough consideration of them.

Guidelines and limits on administrative authority

The Secretary is given extensive discretionary administrative power as the bill is now written, substantially more than under the current statute which, in our opinion, goes too far in this respect. If the administrative authority in the proposed legislation is used to its fullest, it could seriously curb the all-important voluntary aspects of the bill. Overextension of administrative authority, beyond that necessary for proper administration, places undue responsibility on the Secretary and, furthermore, constitutes a serious threat to the basic freedom of the individual operator and to the effectiveness of his congressional representatives to work on his behalf.

We view as serious the complete lack of guidelines and limits in connection with the relative levels of price support payments versus the loan rate as components of the total price support level. Since it is the loan rate which exerts influence on market prices, and since the price at which storage stocks can be sold is also tied to the loan rate, authority in connection with setting a given level should be subject to reasonable limits written into the legislation itself. Also, limitations on the authority to set the payment for acreage involved in the diversion program should go hand in hand with guidelines on the loan rate.

The Secretary is also given unlimited discretion in prescribing the extent of participation in the diversion program and in determining what is a fair and equitable basis for distributing payment-in-kind certificates, rather than requiring the certificates to be distributed on the basis of the respective shares of the producers in the feed grain crop as is the case under current law. The only guideline which is contained in the provisions with respect to payments in kind is that the Secretary base his determination on what is desirable to effectuate the purposes of the program.

In another area, the Secretary is given authority to reserve not to exceed 1 percent of the estimated total feed grain base for all farms in a given State for apportionment to farms on which there were no acreages devoted to feed grains in the crop years of 1959 and 1960. In determining the apportioning of such acreages much discretionary power is given. Such authority could have grave implications. A new man could not qualify unless the local authorities were inclined to let him.

Termination or modification of agreement

We recommend that the intent of subsection (6), section 202(i) be clarified by deleting the last phrase:

“(6) Notwithstanding any other provisions of law, the Secretary may, by mutual agreement with the producer, terminate or modify any agreement previously entered into pursuant to this subsection if he determines such action necessary because of emergency created by drought or other disaster.”

It is our understanding that the purpose of this particular provision is to allow sufficient flexibility for modification in the case of an emergency. Such amendment would guard against the possibility of interpretation as providing authority to modify or eliminate acreage diversion or other requirements of the program in chronic feed deficit areas. Such interpretation would result in the highly undesirable substitution of arbitrary Government decisions for the natural functions of economic forces in determining land use.

Secondly, the original wording of this subsection might be interpreted as carrying the implied responsibility, on the part of the administrators, to maintain “fair” prices for feed grains in certain areas or in the Nation as a whole. In the opinion of this association, such action would be contrary to the basic purposes of farm programs.

Opposition to substitution provisions between wheat and feed grains

The association takes serious objection to the inclusion of substitution provisions which allow for feed grains to be grown on wheat allotment acres. In discussing the said provisions with Members of Congress and Department officials, we have been told that the desired intent is to allow feed wheat to be planted on feed grain base acres and be considered a feed grain under the program.

We cannot oppose allowing operators in the wheat area to plant feed wheat on acres which are now established as feed grain base acres. We do submit to the committee, however, that if this is the intent, this is the manner in which the provisions should be written in the proposed legislation. It would be a simple matter to amend the existing language to read: "Feed wheat may be planted on feed grain acres and be considered a feed grain under the program."

The argument sometimes given for writing the substitution privilege into the law is that it is in the interest of efficient and flexible farming operations. However, we submit that said provisions as now written are highly inequitable in that they provide for transferring part of the wheat problem to the backs of feed grain producers. Any wheat allotment acres used to produce feed grains will add to the overall acreage devoted to feed grains and, thus, result in all feed grain producers having to take a proportionate cut in their bases.

The members of this committee are aware that the majority of the members of this association are growers of feed grains, in addition to their feeding operations. There is no reluctance on the part of our members to compete with growers of grain in the traditional wheat areas; however, surely it is reasonable to insist that such competition not be fostered under the umbrella of a Government program. Particularly at this time, when feed grain stocks are reaching a manageable level, feed grains should not be made the whipping post for the wheat problem.

Enabling legislation to allow any or all wheat allotment acres of a wheat grower to be planted to feed grains and to be included under the feed grain program is certainly not in the best interest of the feed grain program.

TITLE V—CROPLAND ADJUSTMENT

The National Livestock Feeders Association has serious reservations about the cropland adjustment provisions contained in title V of S. 1702 from three standpoints: (1) Said provisions would work toward greater substitution of Government decision for economic forces in determining land use; (2) the cropland adjustment program is not needed in the case of feed grains; and (3) the adjustment program, as outlined in said title would be very expensive.

Substitution of Government decision in land use

Association members in their development of official policy have expressed grave concern over the long-term effects of substituting Government decisions for the soundness of economic forces in determining land use, and have instructed the board of directors to confer with Government officials on this problem in an effort to minimize the effect of Government activity in overriding the free working of economic forces in determining land use.

One of the important contributors to making American agriculture the envy of the world has been the operational freedom accorded to the basic economic principle of comparative advantage: Each crop being raised on the land best adapted for its production. For the longrun health of agriculture and to assure its ability to supply consumers with the quantities of food needed in the future, it is a paramount importance that land most suitable for corn production, let us say, not be converted to a wildlife refuge or a water shortage facility.

Department officials in our conversations with them on the cropland adjustment topic have stressed the aggressive effort which would be expended under cropland adjustment authority to take some of the most productive land out of production. In fact, we have been given the impression that this is the primary objective in seeking such authority. On the surface, this appears to be a most logical procedure to follow to alleviate the immediate problem of stored crop surpluses. But we submit to the committee that this can indeed have serious consequences for agriculture and the Nation in the longer run.

Production problems for the most part have continued to plague agriculture not from the use of the acreages most adapted to the production of a given crop, but rather, from the bringing into production vast acreages of land not so well suited. For example, feed grains are now produced on acres diverted

from wheat and cotton; large quantities of wheat are now produced in the Corn Belt; and so forth.

The land which should be diverted from crop production to other alternatives, from the standpoints of economic soundness of land use and the long-run best interest of the Nation's economy, is that land least adapted to crop production.

Economic forces, if allowed to operate, can do the most satisfactory job of land use determination. Such cannot be said of Government decision under a cropland adjustment program. In fact, Government action under such a program is most apt to work counter to economic forces in this respect. Diversion programs similar to the current program in effect for feed grains are much preferable to the cropland adjustment provisions of title V, in connection with the determination of land use, and are sufficient to accomplish the desired results in feed grain production.

Cropland adjustment not needed in feed grains

The relationship of production and utilization of feed grains in recent years indicates the diversion program now in effect and included in the feed grains title (title II) of S. 1702 should be sufficient to bring feed grains production in line with utilization. A cropland adjustment program is not justified in view of the reduction in feed grain stocks that has taken place.

Cropland adjustment is expensive

A cropland adjustment program as outlined in title V cannot help but be expensive, particularly if the move is made to take highly productive acres for a given crop out of production. Marking up greater expense to agriculture will serve only to the further deterioration of agriculture's image as a recipient of Federal funds.

The program can be "expensive" from another standpoint; namely, the economic health of local communities. Placing a limit on the number of acres to be diverted in any given county and making provisions for Federal assistance to rural communities will not sidestep this aspect of the problem. In fact, the program under the provisions as now written can inject the Department of Agriculture into the economic life of rural communities to the extent which can lead to a serious encroachment of Federal authority and unhealthy dependence on the U.S. Treasury.

Guidelines of authority badly needed

We are seriously concerned over the blanket authority given the Secretary under title V. It has been proven time and time again in the past that congressional authority and jurisdiction in given areas are reduced proportionately to that transferred to administrative agencies. In our opinion, the broad power conferred upon the Secretary in this title amounts to the transfer of authority and jurisdiction, rather than to the delegation of authority. Virtually every major decision to be made in connection with cropland adjustment is left up to the discretion of the Secretary as the provisions are now written, including those involving long-term commitments which can obligate the Federal Government beyond any indicated time limit.

TITLE VI—TRANSFER OF ALLOTMENTS

The National Livestock Feeders Association is firmly opposed to giving the Secretary of Agriculture the authority set forth in title VI, entitled "Transfer of Allotments." This title would permit the transfer by sale, lease, or other means of acreage allotments, base acreages, and sugar proportionate shares which have been established under Federal law, including the transfer from one farm owned by a person to another farm owned by him.

The legal authority conferred to the Secretary by the provisions of this title would constitute, in actual practice, giving ASCS officials licensing authority with respect to the production of those commodities covered by Government programs.

Over time, officials could channel the production of those wanting to give up allotments and base acreages in such a manner as to actually determine who would produce a large share of a given commodity under the respective program. The transfer would include the acreage history and marketing quota attributable thereto. This means we are not talking about a temporary arrangement for the short-term convenience of land operators. The sum total of such transfers would make permanent changes in the distribution of allotments among pro-

ducers, the effect of which can well be to concentrate the allotments in fewer hands. This will work against assuring the position of the family farm operator and in favor of the large operator.

Such authority would seriously impair reasonable safeguards on administrative authority. Furthermore, the provisions of said title would set the stage for creating any number of Billie Sol Estes operations on a range of scales.

And now, Mr. Chairman, we would like to comment briefly on several other circumstances which we feel are important to the feed grain situation.

RELEASE PRICE—COMMODITY CORPORATION STOCKS

The National Livestock Feeders Association does not favor the proposals, legislative and others, to prohibit the Commodity Credit Corporation from making domestic sales of stored commodities at a designated price level above the present 105 percent of current support prices, plus reasonable carrying charges.

To avoid misunderstanding on the association's position with respect to feed grain prices, let us again emphasize the statement in this connection which was made previously: Our people do not seek cheap feed grains. Generally speaking, low feed grain prices do not contribute to the health and continued well-being of the livestock feeding business; in fact, the opposite has proved historically to be true. At the same time, though, our people are not receptive to subjecting the free market to two price influencing factors, both created by the Government program, which may exert their influence at different times of the year and cause rather wide fluctuations in market prices.

Would defeat purposes of feed grain program

Raising the minimum price level at which the Commodity Credit Corporation can make domestic sales would work against the purposes of the feed grain program on two counts: (1) Work toward raising prices to a level which would discourage participation and compliance; and (2) have the effect of encouraging a buildup, rather than a continued decrease, in CCC storage stocks and, in turn, add to storage costs. Furthermore, such action could contribute to the problem of grains going out of condition prior to the movement from storage.

As long as the program is voluntary—and this association firmly opposes anything other than a voluntary program—high feed grain prices will discourage participation in the program and compliance with the diversion provisions. Also, if the resale price is set at a level at which storage stocks cannot move into utilization channels with a degree of freedom, storage volume will again tend to increase.

Would contribute to price instability and emphasize CCC's influence on market prices

Setting the CCC sale price out of line with the effective loan rate would create an additional price influencing factor, which would be "out of phase" with the influence exerted by the level of the loan rate itself. On the one hand, it is the level of the loan rate, not the total price support rate (made up of price support payment plus loan rate) which is the price influencing force. Normally, the loan rate has its greatest influence on market prices during and immediately following harvest. On the other hand, the formula bin site price (resale level) has its greatest influence on local prices and on the general price level whenever the movement of feed grains tightens up. Typically, this comes some time after 1 year's harvest and immediately prior to the availability of the new crop. Such a situation, however, may also occur at other times, as evidenced by the situation which developed on corn last year in late November and December. Had the required resale level been set at upwards to 125 percent, as contained in the current proposals, this would have contributed to a violent fluctuation in the price of corn.

A required resale level far out of line with the loan rate would work, at times, toward forcing prices much higher than the level which prevails during harvest and thereafter. In doing so, price instability would be generated to a far greater degree than is true under the present sale requirement.

If the Commodity Credit Corporation is prohibited from making sales at a level somewhere in line with prevailing market prices—that is, prevented from letting such sales volume blend smoothly into market channels—market prices will become less and less insulated from the effects of the volume of feed grains held in storage.

NLFA submits that the present minimum is at a practical level

Our people, including large and small operators and the range in between, tell us that the present CCC sale level of 105 percent of the loan rate, plus reasonable carrying charges, is as nearly correct a level as can be determined. This conclusion is based on their experience in both their respective local markets and in the national market for feed grains.

They have concluded that this level does not discourage participation in the program and compliance with the diversion provisions, does allow CCC sales to be made with a minimum of effect on market prices, and has made progress toward reducing storage stocks of feed grains.

This association, therefore, respectfully requests that the committees not deviate from the present resale minimum in legislation which it recommends to the Senate.

PREFERENTIAL TREATMENT ON TRANSPORTATION AND PRICE

In the past there has been movement of grain from the traditional growing areas into deficit producing regions and some of this movement has taken place under conditions of preferential treatment on either transportation rates or price.

In the judgment of this association, preferential treatment for any area should be prohibited. Price or transportation concession to any area—including movement to storage—is discriminatory to all other users. The position of being deficit producing can be created, and has been in cases, and the Government should definitely not come to the rescue when this occurs.

Please bear in mind that this discussion does not pertain to emergency drought conditions, but rather to deliberate utilization expansion beyond supplies available locally.

FARM AND COUNTRY ELEVATOR STORAGE

In past years it has been the practice to move Government stocks of feed grain eventually into terminal warehouses and centralized commercial storage facilities many of them completely outside and at considerable distance from the traditional producing areas. We submit to the committee the recommendation that this practice be discontinued and that both farm and country elevator storage be used instead. This suggestion is made for two reasons:

- (1) Utilizing storage in the producing area provides minimum distortion of normal supply and price relationship.

- (2) In the interest of providing higher farm income, and maintaining financial solvency in rural communities, allowing producers and elevators located in producing areas to handle storage would make at least a small contribution toward improving a situation which is still of great concern to all of us.

GOVERNMENT ACTIVITY TOWARD INCREASED PRODUCTION

For many years the Congress of the United States, the administrative branch of the Government, and the industries involved have been striving conscientiously to devise programs that will bring production of feed grains more nearly into line with usage demands with the hope that greater returns and income will be realized by the people in agriculture. Yet, at the same time, we have had other activity within the Federal Government which contributes to the problem and further aggravates it.

We are referring to the Government subsidization of irrigation projects and reclamation of land, both of which have served to increase agricultural production. We realize, of course, that such programs may be of considerable benefit to local communities and we understand the demand for them is real.

Nevertheless, we do feel it is important to emphasize this conflict of interest while discussing a solution to the feed grain problem before this committee, and also to recommend that such subsidization be discontinued wherever the usage of the land will contribute to further expansion in feed grain production. Regardless of the real need that may be justified from a local point of view, it is difficult for this association to justify continuing such expenditures as we seek to solve a difficult national problem of excess production.

CONCLUSION

Mr. Chairman, and members of the committee, these are the views and recommendations of the National Livestock Feeders Association which we hope will be of some value to the committee as it considers feed grain legislation.

The CHAIRMAN. The committee will stand in recess until 2:15.

(Whereupon, at 12:35 p.m., the committee recessed to reconvene at 2:15 p.m., the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

Is Mr. Grow here? Have a seat, Mr. Grow.

You may proceed, sir.

**STATEMENT OF HOWARD E. GROW, ASSISTANT TO THE EXECUTIVE
VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, HUDSON,
IOWA**

Mr. GROW. Thank you.

Mr. Chairman and the rest of your committee, which apparently are not here at the moment, my name is Howard Grow and I am appearing here today in behalf of George Strayer who is executive vice president and secretary-treasurer of the American Soybean Association, with headquarters at Hudson, Iowa. The American Soybean Association is the nationwide organization of soybean growers, and it is actually in their behalf that I appear here today.

SOYBEANS

Gentlemen, I am here today on what we in the soybean industry consider an extremely important assignment. In his farm message to Congress in January President Johnson requested the allowance of planting of soybeans on acreage diverted from feed grains. In the submission by the administration of the proposed farm program, known as S. 1702, provision was made for adding soybeans to the list of commodities which might be planted on diverted acreage, both from feed grains and from wheat. Up to this time guar, sesame, safflower, sunflower, castor beans, mustard seed, and flax have been in this category. Soybeans would be added to this list by the proposed legislation.

The Livestock and Feed Grains Subcommittee of the House of Representatives removed this provision from the bill during their consideration of it, and the Wheat Subcommittee concurred. They found little, if any, support for the administration proposal, and they found much and violent opposition to it among producers of soybeans from all areas of the United States, and in large numbers.

It is our fervent hope that your committee will likewise see fit to refuse to include this proposal, so that when the farm bill is complete and it goes to the floor of the Senate for action it will allow producers of soybeans the degree of freedom of action which they now have. I would like to briefly explain our American Soybean Association position on this matter.

The American Soybean Association is unalterably opposed to the inclusion of soybeans in the list of commodities which can be grown on diverted acreage. Our official position is:

The American Soybean Association is opposed to the allowance of planting of soybeans on any acreage removed from the production of any other crops on which any type of diversion or compensatory payment is made in any amount.

This position was established several years ago, and has been reaffirmed annually at our meetings. I would like to tell you why we take this position.

First, let me point out that the soybean crop is the No. 1 dollar earner among all agricultural commodities in our world markets. Soybeans, soybean oil, and soybean meal bring more dollar exchange back to the United States than any other commodity. Soybeans are No. 3 in value among all U.S. agricultural crops, exceeded only by corn and cotton. The March 1 planting intentions report indicates a 1965 soybean crop of 829 million bushels—by far the largest in history and 128 million bushels above the 1964 crop. Later unofficial reports indicate a crop of about 850 million bushels.

Soybeans have never been on the surplus commodity list, even though the crop has grown from 60 million bushels per year prior to World War II to 200 million bushels at the end of the war and to the officially predicted 829 million bushels in 1965. While there have been CCC stocks of soybeans under the price support program at times it is my understanding that CCC actually shows a slight profit on the total of soybean price support operations. There are no subsidies and no export promotion mechanisms on soybeans. They sell for dollars in the markets of the world through the private trade in increasing quantities without governmental intervention.

The soybean crop is one to which the farmer has turned as he has decreased his acreage of corn, of cotton, of rice, of wheat, and of other crops which are or have been in surplus. Through the period of years since the end of World War II the soybean crop has absorbed nearly 25 million acres from these other crops—at no cost to Government—and has not yet been in surplus troubles. What would our problems be on these other crops had we not turned to soybeans?

The farmer likes the soybean crop because it can be produced and harvested with the same seedbed preparation equipment, the same planting and cultivation equipment, and the same harvesting equipment as he uses on other crops. Through a period of years he has been able to market his soybean crop on any day of the year, without governmental restrictions. It has been a crop which puts cash in his pockets to pay the machinery, fuel, and other production bills. Soybean production has been profitable to him.

When the weather was unfavorable, when floods or insects or diseases have ravaged his other crops, the farmer has been able to turn to soybeans to assure some income. He likes to grow the crop, he likes the freedom which has been his in the making of decisions pertaining to it, and he wants this situation to continue.

Prior to World War II the United States imported two-fifths of all the fats and oils we used in the United States. We were the world's largest net importer. Because of the soybean crop we are today the world's largest net exporter of fats and oils and oil-bearing materials. During the current crop year we will export over 200 million bushels

of soybeans as beans. We will export the oil from more than another 100 million bushels, and we will export over 2 million tons of soybean meal. All export of beans and meal are strictly for dollars, and more than two-thirds of the oil exports will be for dollars. In other words, over three-sevenths of our entire soybean crop is going into the markets of the world today—and is returning dollar exchange to us at this time when we so badly need it.

Soybeans and soybean products are going into world markets in quantity today for several reasons. First of all, they contain protein—the highest quality vegetable protein available for either human or animal consumption among the vegetable sources. Secondly, they contain edible oil. These are the two commodities most scarce in the world food economy. Carbohydrates, as such, are relatively plentiful almost any place in the world, in the form of wheat, rice, corn, milo, millet, or some other cereal. Protein and oil are the commodities most needed and in greatest demand. Therefore, the world is interested in our soybean supplies.

Secondly, soybeans are selling in the world markets because we have kept our prices competitive with those of the other oilseed materials grown in other countries. This includes peanuts, copra, sunflower seed, rapeseed, and similar crops. On several occasions the American Soybean Association officially requested that the Secretary of Agriculture not raise the support price on soybeans, when such action was contemplated. On other occasions we even requested the lowering of supports, in order that we might be competitive in the markets of the world. We have deliberately tried to steer a course which would make the soybean crop profitable to the farmer, would give him a place to go with acreage removed from other crops, and which at the same time would keep us competitive in the world markets. We have tried to increase demand as we increased production, assuring the grower of a favorable price in the marketplace, not relying on governmental supports to protect our market.

This policy has paid dividends. The 1965 production forecast of 829 million bushels, as contrasted with 200 million bushels at the end of the war, is evidence of this. At the same time our industry has done everything in its power, both privately and in cooperation with Foreign Agricultural Service, to explore, build, and develop markets. We had no export markets at the end of the war—today nearly half our production is sold overseas. We have built markets at the rate of approximately 40 million bushels per year, and we have increased production at about that same rate without any type of artificial stimulus. We can continue to build markets at this or even an expanding rate if an overly benevolent Government does not insist on getting us into trouble.

Why has the administration asked for soybeans to be placed on the list of commodities which might be planted on diverted acres? Why do we need such provisions? We can see no logical basis for it. The justification offered by the proponents is that we need more soybean acreage. Do we?

In 1964 soybean acreage planted was increased by 2.2 million acres. Had dry weather not interfered, and had we maintained the same upward trends which had prevailed during the previous 5 years, we would have produced a soybean crop of 795 million bushels in 1964.

The anticipated acreage increase in 1966 is approximately 3 million acres, and with normal weather this acreage should produce 850 million bushels of soybeans. May I point out that up to this time we have never yet consumed or sold 700 million bushels in any one year, and that if normal weather had prevailed in 1964 we would now be faced with a sizable carryover of soybeans. Further, if normal weather prevails in 1965 we almost certainly will have all the soybeans we can consume and sell, plus a carryover in the area of 100 million bushels.

For nearly 20 years the soybean producers have expanded their acreage in proportion to market expansion. They have kept pace with demand, but have done it on a basis which has made the soybean crop profitable to the grower. Soybeans have not been an expense to the U.S. Government in price-support operations, but they have been the crop which has saved many farmers from financial ruin.

Allowing planting of soybeans on diverted acres is not necessary, but is in fact highly undesirable. In order that we might measure the feelings of our members—the men who produce the soybeans—we made a rather extensive survey of soybean producers from the Canadian border to the gulf, and from the Atlantic to the Rockies. They gave us their views in no uncertain terms. They are violently opposed to allowing planting of soybeans on diverted acres.

These men object first on a moral basis. They believe that if acreage is removed from production it should be actually removed from production, and that if a farmer accepts payment for not growing a crop, no matter how large or small that payment, he should remove that land from production. The ethical standards of America's farmers today are such that they severely criticize this proposal for double pay, and would vote against it almost to a man if given an opportunity.

These same men also object on an economic basis. Soybeans are not in trouble, have not been in trouble, and farmers like them that way. They know that if permission is given to the Secretary of Agriculture to determine whether or not soybeans should be planted on diverted acres certain forces in this country would push for such plantings. If soybean production on diverted acres were allowed soybeans would very soon become a surplus commodity, the support price would become the selling and the ceiling price, and the industry which has kept itself from trouble so far would join the list of surplus commodities on which CCC becomes the major buyer. When that happens soybean acreage will drop, support prices will have to be raised to increase farm income, and a vicious circle will have been started just as it has on several other commodities.

The news releases say the authority will not be used now, that it might never be used. Why, if they did not plan to use this authority, would they be asking for it? There is only one way to assure it is not used—that is for you gentlemen in this committee to be sure the provision which would grant such authority is not in the bill when it leaves your hands.

The Livestock and Feed Grains Subcommittee of the Committee on Agriculture in the House of Representatives removed this proposal inclusion from the bill before it was reported to the floor of the House. They found no support for the administration proposal that soybeans be included on the list of commodities which might be grown on diverted acres.

What would be gained from this proposal? We can see nothing to be gained, and everything to be lost. Soybean acreage will increase without governmental stimulation just as rapidly as we can build markets. Price will determine acreage, just as it is doing in 1965. Even if the Secretary of Agriculture did not use the authority granted him under this proposal the mere knowledge that this provision was in the law would be cause for uncertainty. There would be constant pressure to use the authority from those who would profit from storage and handling of surplus stock, as well as from the processing of cheap soybeans. The specter of huge acreages of soybeans planted on diverted acres would be constantly hanging over the market, both at home and abroad.

We will begin 1966, the year when the program you are considering will become effective with a soybean carryover, given normal weather in 1965, of about 100 million bushels. Why would anyone want to increase this amount? Their only objectives could be cheap soybeans, surpluses, storage revenue and governmental supply management.

These are the very things the American Soybean Association has fought for years to avoid. America's farmers need one crop which is not managed—one crop which they can produce as needed—one crop which can be marketed when and as the producer sees fit. Our industry has stayed out of trouble through this period of years of rapid growth, and we can see no justification for ruining the future of an otherwise progressive industry by needless and uncalled-for Government intervention at this point.

May I remind you, gentlemen, that the producers of soybeans are not asking for this change in the law, even though some of them might benefit financially for a short period. The producers of the crop are firmly opposed to this change—they do not want soybeans planted on diverted acres—and they ask that you give them an opportunity to continue their own management of the crop as they have done for nearly 20 years.

Adding soybeans to the list of commodities which may be planted on acreage diverted from other crops—feed grains and wheat—would be morally wrong and financially unsound for both the Nation and the soybean producer. We beg of you, gentlemen, that in your deliberations on the farm program which will go into effect in 1966, you do not place soybeans in jeopardy by adding them to the list of crops which can be grown on diverted acres. There is nothing to be gained and much to be lost by making this change proposed by the administration. If there is no intent to use the authority, why is it being requested? Even though the authority is not used it will be damaging, and there will always be the probability of extreme pressures being exerted on the Secretary of Agriculture to use it. If the authority is not needed, if the soybean producers do not want it, if both the Nation and the producer will benefit by continuance of the current arrangement, why make a change?

This is a serious matter to us, and to every soybean producer in the United States, gentlemen. This administration proposal is of crisis proportions to our industry. It is not to be taken lightly. We hope you will not bow to certain pressures which may be exerted on you to include the administration proposal in the bill when reported out by you. Farmers do not want this proposal.

We want a strong, virile, active, continuing soybean industry in the United States. We want to see it continue to grow and continue to bring large dollar returns in world trade. If left to our own resources we expect to be producing profitably and selling into the domestic and world markets more than a billion bushels of soybeans per year by 1970. We fear for the future if soybeans are made a political tool. Certainly placing them on the permissive list makes them politically vulnerable and always subject to political pressures. Let's leave a healthy crop in a healthy condition. That means no provision for planting soybeans on diverted acres in the 1966 and 1967 farm program.

Thank you.

The CHAIRMAN. What do you think would be a normal carryover of soybeans?

Mr. GROW. Well, right at the present time we are using somewhere in the neighborhood of 40 to 50 million bushels a month for domestic use and exports. Certainly we should not think in terms of less than that amount for our carryover. That would be 1 month's supply.

The CHAIRMAN. You spoke of 100 million bushels a while ago. Wouldn't that be excessive?

Mr. GROW. We do not think anything up to 100 million bushels would be excessive because we run into a situation such as happened last year with drought. Our production was not as high as we would like to have seen it, but we would certainly have no objection to anywhere from 50 to 100 million bushels as a normal carryover. That is going to adjust from year to year.

The CHAIRMAN. Now, in your testimony you spoke against the Secretary permitting the planting of soybeans on diverted acres.

Now, I am sure you are familiar with the provision in the law, in the bill, proposed bill, at page 18, the bottom of the page, where it is provided that:

For purposes of such payments the Secretary may permit producers of feed grains to have acres devoted to soybeans considered as devoted to the production of feed grains.

Would you oppose that also?

Mr. GROW. No; we do not——

The CHAIRMAN. Why not? Why isn't it as important to not permit the production of soybeans on acreage that could be planted to feed grain, and in that way the farmer would get credit as though he had planted corn, will get a payment on that, and whatever he gets out of soybeans?

Mr. GROW. Well, we would be opposed to a payment; yes. But as far as using his base acreage of shifting it from feed grains or corn to soybeans there, it would reduce the feed grain carryover, although it might increase the soybeans.

The CHAIRMAN. So your opposition is solely to diverted acres?

Mr. GROW. Diverted acres or where there would be a payment made within allowable acreage.

The CHAIRMAN. In other words, if the farmer desires to plant soybeans in lieu of corn you would not agree to the payment of price-support payments as though he grew corn.

Mr. GROW. No; not particularly.

The CHAIRMAN. Not particularly? You would be against that?

Mr. GROW. Not specifically in the same relation that it is with the diverted acres, I mean.

The CHAIRMAN. In other words, if he plants, if he chooses to plant, corn instead of soybeans, let him take his chances with soybeans.

Mr. GROW. That is right.

The CHAIRMAN. All right. Thank you.

Mr. GROW. Thank you very much.

The CHAIRMAN. I do not think you need worry about what this committee will do on that question.

Mr. GROW. Thank you.

The CHAIRMAN. Mr. Ladish. Glad to see you, sir.

STATEMENTS OF HERBERT H. LADISH, CHAIRMAN, MALTING BARLEY SUPPLY COMMITTEE; AND A. J. LEJEUNE, EXECUTIVE DIRECTOR, MALTING BARLEY IMPROVEMENT ASSOCIATION, MILWAUKEE, WIS.

Mr. LADISH. Mr. Chairman, my name is Herbert H. Ladish, and I am appearing before you in support of the need for exemption of malt-ing barley in the Food and Agriculture Act of 1965.

Accompanying me is Mr. Andy Lejeune, executive director of the Malting Barley Improvement Association.

FEED GRAINS

Under title II of the Food and Agriculture Act of 1965 as introduced in S. 1702, 89th Congress, 1st session, feed grain sorghums, and, if if designated by the Secretary, barley. The bill would exclude all barley, unless otherwise designated by the Secretary, which we believe is warranted, and this is very much appreciated by the malting and brewing industries.

However, it is respectfully submitted, that because of the aggravated short supply situation of malting barley, that specific exemption should be provided for malting barley similar to that contained in the Agri-cultural Act of 1961. In that act malting barley growers were per-mitted to plant 110 percent of their 1959-60 base acreage and retain eligibility for price support. This exemption is considered essential because under the provisions of the present bill, should the Secretary at some future time during the effective period of it, deem it neces-sary to designate barley as a feed grain, malting barley would auto-matically be included although it is in a separate serious short supply situation. The following statistics and comments we trust will serve to demonstrate the validity of our position.

Malting barley is currently in an additional serious short supply because of increased needs—sales are going up—and reduced produc-tion in 1964 in the three principal Midwestern malting barley produc-ing States as shown in the following table:

[In thousands of bushels]

State	Barley production		
	Average, 1958-62	1963	1964
North Dakota.....	83, 704	104, 384	90, 950
Minnesota.....	27, 051	25, 884	19, 630
South Dakota.....	11, 883	8, 900	5, 875
Total 3 States.....	122, 638	139, 168	116, 455

This is a decline of 22.7 million bushels or 16.3 percent in 1964 compared to 1963.

Senator YOUNG. 1964 was a good crop year, if I may interrupt; is that right?

Mr. LADISH. It was a good crop year. But you recall, Senator, we ran into the heat in July which affected the outturn largely—of kindred still; larker and trophy did better. But am I not correct—and the acreage was lower in 1965 than 1963 by how much? It was lower, Senator.

Senator YOUNG of North Dakota. Could you tell us what the barley acreage has been during 1963 and 1964?

The CHAIRMAN. That will be supplied for the record.

Mr. LADISH. Thank you, Senator. Does that for the moment answer your question?

Senator YOUNG of North Dakota. Yes.
(The information referred to follows:)

Data on barley

Year	Acreage harvested	Yield per acre (bushels)	Production (bushels)
1963-----	11, 566, 000	35.1	405, 577, 000
1964-----	10, 670, 000	37.8	403, 072, 000

Source: Crop Production, 1964 Annual Summary, U.S. Department of Agriculture.

Mr. LADISH. To add to the deficiency, the prospective plantings of barley in 1965, according to the release by the U.S. Department of Agriculture on March 19, indicate a further decline in production. On the basis of the predicted acreage of 3.6 million, North Dakota, Minnesota, and South Dakota and the 5-year (1959–63) average yield of 27.1 bushels per acre a crop of only 97 million bushels is estimated for the three States in 1965. This is about 19.5 million bushels or 16.7 percent below production in 1964 and amounts to a total reduction of about 42.2 million bushels or 30.3 percent below 1963.

This situation could be additionally aggravated by extensively delayed plantings this spring due to excessive moisture, which would place the crop in its most critical stage when usual hot winds and high temperatures are encountered in July and August.

The drastic reduction in barley production in the three principal Midwest malting barley States will result in a further serious shortage of malting barley for use in 1966 from the 1965 crop and the shortage will be compounded in 1967, and following years, if malting barley is not exempt.

Senator YOUNG of North Dakota. Is these a malting barley exemption in the administration bill?

The CHAIRMAN. No. It is only in the law of 1961 that we have it.

Mr. LADISH. In 1963.

The CHAIRMAN. It is in the existing law.

Mr. LADISH. In the proposed law all barley is exempt unless otherwise designated by the Secretary.

The CHAIRMAN. As I understand, you would be satisfied if the provision of the existing law would be reenacted?

Mr. LADISH. We are asking for a little more than that, Mr. Chairman. But in my concluding statement we are about—we are stating that if in the judgment of Congress and the Department the discretionary exemption as prevailing in the existing law is deemed necessary to administer the act, that we would defer to Congress and to the Department.

Senator YOUNG of North Dakota. You have about the same situation as you do with the soybeans.

Mr. LADISH. You see, our problem on the present bill is that in the first place, we are pleased that all barley is excluded as a feed grain unless otherwise designated by the Secretary. But our concern is that if he should designate barley as a feed grain, then malting barley will fall into that category automatically. So we are asking that if he did later designate barley—no, we are not asking, we are asking that malting barley be declared exempt.

Senator YOUNG of North Dakota. You would accept the malting barley exemption even if it were at the discretion of the Secretary?

Mr. LADISH. That is our last resort. We would like it exempt, period, Mr. Senator.

Senator YOUNG of North Dakota. I see.

Mr. LADISH. But we are concluding by saying if it is felt by Congress and the Department that it should be at the Secretary's discretion we would defer to it. That will come out right in my concluding statement, Senator Young.

Senator YOUNG of North Dakota. Yes.

The CHAIRMAN. Well, I wonder if you could submit for the record such an amendment as you desire to be presented.

Mr. LADISH. Yes.

The CHAIRMAN. And we can then consider that.

Mr. LADISH. Yes. Would you want that today, Mr. Chairman?

The CHAIRMAN. No, no. The hearings will be concluded, I hope, by the 29th of June, and if you can get the language that you desire—

Mr. LADISH. Yes.

The CHAIRMAN (continuing). Both ways, the two ways—

Mr. LADISH. Yes.

The CHAIRMAN. What is now in the law and what you want to add to that.

Mr. LADISH. Yes.

The CHAIRMAN. And it will be considered by the committee, and your suggestion will be put in the record at this point in your remarks.

Mr. LADISH. Yes, sir.

(The document referred to follows:)

I. PREFERRED AMENDMENT

(Amendment italicized)

TITLE II—FEED GRAINS

SEC. 201. Section 105 of the Agricultural Act of 1949, as amended, is amended by adding the following new subsection (e):

“(e) For the 1966 and 1967 crops of feed grains, the Secretary shall require as a condition of eligibility for price support on the crop of any feed grain which is included in any acreage diversion program formulated under section 16(i) of the Soil Conservation and Domestic Allotment Act, as amended, that the producer shall participate in the diversion program to the extent prescribed by the Secretary, and if no diversion program is in effect for any

crop, he may require as a condition of eligibility for price support on such crop of feed grains that the producer shall not exceed his feed grain base: *Provided, That no producer of malting barley shall be required as a condition of eligibility for price support for barley to participate in the acreage diversion program for feed grains if such producer has previously produced a malting variety of barley, plants barley only of an acceptable malting variety for harvest, does not knowingly devote an acreage on the farm to barley in excess of 110 per centum of the average acreage devoted on the farm to barley in 1959 and 1960, does not knowingly devote an acreage on the farm to corn and grain sorghums in excess of the average acreage devoted on the farm to corn and grain sorghums in 1959 and 1960, and does not devote any acreage devoted to the production of oats and rye in 1959 and 1960 to the production of wheat pursuant to the provisions of section 328 of the Food and Agriculture Act of 1962.* In addition to price support provided under subsections (a) and (b) of this section, etc. * * *".

II. ALTERNATIVE AMENDMENT

(Amendment italicized)

TITLE II—FEED GRAINS

SEC. 201. Section 105 of the Agricultural Act of 1949, as amended, is amended by adding the following new subsection (e) :

"(e) For the 1966 and 1967 crops of feed grains, the Secretary shall require as a condition of eligibility for price support on the crop of any feed grain which is included in any acreage diversion program formulated under section 16(i) of the Soil Conservation and Domestic Allotment Act, as amended, that the producer shall participate in the diversion program to the extent prescribed by the Secretary, and, if no diversion program is in effect for any crop, he may require as a condition of eligibility for price support on such crop of feed grains that the producer shall not exceed his feed grain base: *Provided, That the Secretary may provide that no producer of malting barley shall be required as a condition of eligibility for price support for barley to participate in the acreage diversion program for feed grains if such producer has previously produced a malting variety of barley, plants barley only of an acceptable malting variety for harvest, does not knowingly devote an acreage on the farm to barley in excess of 110 per centum of the average acreage devoted on the farm to barley in 1959 and 1960, does not knowingly devote an acreage on the farm to corn and grain sorghums in excess of the average acreage devoted on the farm to corn and grain sorghums in 1959 and 1960, and does not devote any acreage devoted to the production of oats and rye in 1959 and 1960 to the production of wheat pursuant to the provisions of section 328 of the Food and Agriculture Act of 1962.* In addition to price support provided under subsections (a) and (b) of this section, etc. * * *"

The CHAIRMAN. All right, proceed.

Mr. LADISH. Okay.

The projected requirements for malting barley from 1965 crop in the three-State area is 89.1 million bushels; that is our requirement for this crop for the three States. This is based on projected increased usage of malt and malting barley for brewing of beer in 1966 at the rate of 4 percent over 1965, as forecast by the U.S. Brewers Association.

Agricultural statistics, published annually by the U.S. Department of Agriculture, shows for the 5-year average 1958-62 that 73.1 percent of the barley produced in the three-State area was sold. The remaining is retained for seed and feed on the farm.

This means that the marketing of 1965 crop barley based on the above estimated production will amount to about 70.9 million bushels. At this point we would like to submit that approximately 12 percent of the estimated 70.9 million bushels of barley to be sold would not be of malting quality because of damage, blight, and excessively high protein, and therefore would not serve to supply malting needs of 89.1 million bushels.

Taking this into account, the remaining 62.4 million bushels will be approximately 26.7 million bushels or 30 percent below anticipated needs of 89.1 million bushels of malting barley from the crop in the three-State area in 1965.

Senator YOUNG of North Dakota. What is the alternative source of supply? Imports from Canada?

Mr. LADISH. What we would like to see, Mr. Senator, is more grown in the United States of America.

Senator YOUNG of North Dakota. Yes.

Mr. LADISH. But if there is a shortage that cannot be supplied in the country, the alternate, the alternative, would be imports from Canada, most likely, or from other countries, which we would like to eliminate or hold to the very minimum possible.

The CHAIRMAN. Isn't rice a good substitute? [Laughter.]

Mr. LADISH. Malt is the soul of the beer; rice is an adjunct.

The CHAIRMAN. An additive.

(Discussion off the record.)

The CHAIRMAN. Back on the record.

Mr. LADISH. Furthermore, in view of the reality now of the sharp increase in the population segment in ages 21 to 40, which statistics show to be the largest beer-consuming category, and continuing pyramiding of this group, spectacular further increases in beer consumption are forecast for ensuing years by brewing marketing authorities.

Beer consumption increased 5.2 percent in 1964 and increased an additional 2.3 percent in the first 3 winter months of 1965. It is estimated that annual increases at the rate of 4 percent will continue in following years.

Based on the forgoing estimated rate of increase in beer sales, the requirements for malting barley in the United States from all sources in 1965 are estimated at 105 million bushels. Projecting these needs into the future at a compounded increase in needs of 4 percent per year, the following quantities of malting barley will be needed in 1970 and 1975.

Estimated malting barley requirement

Year:	<i>Million bushels</i>
1965-----	105
1970-----	128
1975-----	155

These figures are really startling. Taking the 105 million base for 1965, compounding it to 1970, which is 5 years, you will see that our requirements will be 128 million.

Senator YOUNG of North Dakota. North Dakota is the No. 1 malting barley producing State.

Mr. LADISH. Right.

Senator YOUNG of North Dakota. What grades of barley are actually usable by the maltsters?

Mr. LADISH. What is the percent of North Dakota barley that is planted to malting? It is very high.

Senator YOUNG of North Dakota. This is not the question. What percent of the barley production in North Dakota is usable for malting purposes? Sometimes a farmer will plant malting barley, but

because of disease, insects, or weather factors it does not wind up as malting barley.

Mr. LADISH. I will answer it this way, Mr. Senator, and if you feel a correction should be made, Andy, you say so. In the agricultural statistics published by the USDA they have the three-State area.

Senator YOUNG of North Dakota. Yes, that is all right.

Mr. LADISH. We have that group or we group them. Have you got North Dakota separate?

The CHAIRMAN. If you can answer for North Dakota, do so.

Mr. LADISH. We figure 12 percent of the crop would not be of malting quality because of damage from blight, mold, or excessively high protein.

The CHAIRMAN. That is all three States. What is of North Dakota?

Mr. LEJEUNE. I have the percentage of the crop that is actually sold.

Senator YOUNG of North Dakota. For malting purposes?

Mr. LEJEUNE. Well, sold for all purposes, and of that we calculate that 12 percent is not of suitable quality.

Senator YOUNG of North Dakota. Even though they planted malt barley?

Mr. LEJEUNE. Yes. The percentage of the North Dakota crop—I haven't got the percentage figure—but the actual bushels that were sold in 1962 which, I believe, are the latest figures available, were 69½ million bushels.

Senator YOUNG of North Dakota. Our farmers are doing a better job of producing barley. You have the problem of harvesting at the right time, and not cracking it, and many other things. Then, of course, weather determines whether or not there is too much protein, and so on.

Mr. LADISH. Yes. They are doing an outstanding job, Senator, and we in the Malting Barley Improvement Association are very pleased with the cooperation we have had in connection with our efforts to demonstrate how they can receive more money for their barley by following good cultural practices, good seed treatment, and so forth, and Andy spends a lot of time on that.

Senator YOUNG of North Dakota. I know you have been doing a lot of work with our farmers and have been doing a good job. Thank you.

Mr. LADISH. Shall I proceed, Mr. Chairman?

The CHAIRMAN. Surely.

Mr. LADISH. I did want to mention for the record, and you gentlemen who are here, that on the basis of 105 million bushel need, and projecting this at an annual 4-percent increase, by 1975, it will be 155 million bushels. It is really startling.

Furthermore, barley stocks are not burdensome in actual bushels and particularly in relation to other feed grains. A report released by CCC on June 4, 1965, showed the following quantities of feed grains under price-support loan and owned by CCC as of April 30, 1965, and April 30, 1964:

	1965 (thousand bushels)	1964 (thousand bushels)	Percent of 1964 CCC stocks
Corn.....	1,254,282	1,541,937	81.3
Grain sorghum.....	644,899	696,538	92.7
Oats.....	94,970	70,689	134.3
Barley.....	41,331	56,745	72.8

These are CCC stocks.

Senator YOUNG of North Dakota. What percent of CCC stocks would be usable for malting purposes?

Mr. LADISH. Senator, I think we can answer that by saying none or virtually none. I think we could answer it by saying none, because we could not buy it out of CCC stocks because, in the first place, if it was of acceptable malting quality it would not have gone into CCC stocks.

The CHAIRMAN. You would not have permitted it to go in.

Mr. LADISH. No. It sold at a higher level than the support price.

The CHAIRMAN. What is the premium for a farmer who produces malting barley which he obtains as against the ordinary production?

Mr. LADISH. What is the average premium, about, it is more right now because prices have ascended.

Mr. LEJEUNE. We have, I believe, a 10-year average on the Minneapolis market where we have compared the top feed price against the top malting price and, I believe, it has averaged about 38 cents per bushel over the 10-year period.

The CHAIRMAN. More.

Mr. LEJEUNE. More, for malting barley.

The CHAIRMAN. Has that increased in recent years?

Mr. LADISH. I would say not. This is a 10-year average.

Mr. LEJEUNE. Yes.

Mr. LADISH. I would say the premium would be closer to 25 to 30 cents a bushel in the last year, except right now. Barley at the present time is at the alltime high for about 10 years, a dollar and a half Minneapolis.

Senator YOUNG of North Dakota. Malting barley.

Mr. LADISH. Yes. It is the top it has been in 10 years. It is a dollar and a half Minneapolis, the top price, brought on by the shortage of the 1964 crop, and our late planting in 1965 concern relative to what the outturn is going to be this year.

The CHAIRMAN. Well now, the fact that you have practically a monopoly on the sale of this barley, what effect has that had on the price?

Mr. LADISH. Would you say that all over again, Mr. Chairman?

The CHAIRMAN. Well, you said that you sell to everybody.

Mr. LADISH. Oh. Ladish?

The CHAIRMAN. Yes, Ladish.

Mr. LADISH. Well, we participate in the business of all the breweries, but we do not get all of this business.

The CHAIRMAN. Have you any competitors in the disposition of malting barley?

Mr. LADISH. In barley malt you mean?

The CHAIRMAN. Yes.

Mr. LADISH. Oh, yes. We have probably 17 or 18 very rugged ones.

The CHAIRMAN. I see. I thought I understood you to say a while ago that you sold to everybody, and I interpreted that to mean you had more or less a monopoly.

Mr. LADISH. No, I did not make it clear. We participate in the business, but we do not get all of it or anywhere near 25 percent of it.

The CHAIRMAN. Proceed.

Mr. LADISH. All barley farm stocks as of April 1, 1965, for the entire United States totaled 107 million bushels which was 19 percent below the previous year and 15 percent below average. Disappearance from farms during the first quarter in 1965 was 83 million bushels, 12 million bushels, or 16.9 percent, greater than last year, and the third largest disappearance of record.

I would like to add that because of the attractiveness of the diversion program it is unlikely that the granting of an exemption for malting barley will result in a significant increase in total barley acreage, because of the attractiveness of the diversion program. In fact, in 1962 when an exemption was in effect, there was an actual decrease in acreage of 7.5 percent, compared with 1961, in all approved malting barley States. Likewise, this year when a malting barley exemption is in effect as the result of the determination of the Secretary of Agriculture that a shortage prevails, 1965 intentions to plant in all malting barely States are 8 percent below 1964 acreage.

Despite the exemption the acreage has declined, and the competition is the attractiveness of the acreage diversion program where they get paid for not raising the grain, they do not have to buy the seed, they do not have to harvest it, and they get the payments which you men are completely familiar with. That is the competitor to the production of malting barley in increased volume.

However, the granting of a malting barely exemption will cause some farmers—those who like to grow malting barley—and thank God thank goodness, there are a lot of them up in Senator Young's State, those who like to grow malting barley—to increase their acreage if they are eligible for price support in the event their crop does not meet malting standards due to adverse growing conditions or other uncontrollable factors. This would help alleviate the situation, and here is our request, gentlemen.

It is therefore respectfully requested that Congress provide in the Food and Agriculture Act of 1965 a specific malting barley exemption, permitting historical producers to plant 110 percent of their 1959-60 base acreage while retaining eligibility for price support. This is our request, and we add it is needed to avoid a continuing serious shortage in supply of suitable domestic malting barley for use in 1966, and following years. This would give U.S. farmers an opportunity to produce in this country a farm commodity which is needed by the malting and brewing industry, which enjoys a favorable cash premium market, which does not get into CCC inventories and add to feed grain surpluses, and which would minimize importation of malting barley from other countries.

In H.R. 8504, introduced on May 26, 1965, a malting barley exemption is included at the discretion of the Secretary. In view of the critical short supply situation of malting barley now and anticipated

in the future as presented earlier in this statement, it is believed that granting the malted barley exemption without discretionary power by the Secretary is valid and warranted. This would also eliminate time-consuming deliberation for administrators in the Department of Agriculture as well as representatives of the malting and brewing industries to establish the need for annual exemption.

If I may leave this one off the record, too, gentlemen——

The CHAIRMAN. Off the record.

(Discussion off the record.)

Senator YOUNG. Could we have the figures on imports of barley for the last 5 years? If you do not have them, a staff member can provide them for the record.

The CHAIRMAN. We can put them in the record.

Mr. LADISH. For us to supply them to you, Mr. Chairman?

The CHAIRMAN. If you have them.

Mr. LADISH. I do not have them right here.

The CHAIRMAN. You supply them.

Mr. LADISH. All right.

The CHAIRMAN. We will put them in the record at this point.

(The information referred to follows:)

U.S. barley imports

*Bushels in
thousands*

Calendar year :

1960-----	11, 197
1961-----	¹ 15,351
1962-----	4, 977
1963-----	6, 424
1964-----	11, 855

¹ Drought year.

Source: Grain Market News, Quarterly Summary and Statistics, Grain Division, Consumer and Marketing Service, U.S. Department of Agriculture, Washington, D.C.

Barley acreage 1963-64 in important Midwest malting barley States

[Acres in thousands]

State	Planted acres			Harvested acres		
	1963	1964	1964 in percent of 1963	1963	1964	1964 in percent of 1963
North Dakota-----	3, 398	2, 752	81. 0	3, 262	2, 675	82. 0
Minnesota-----	738	620	84. 0	719	604	84. 0
South Dakota-----	368	250	67. 9	356	235	66. 0
Total, 3 States-----	4, 504	3, 622	80. 4	4, 337	3, 514	81. 0

Senator YOUNG of North Dakota. Have imports increased or decreased?

Mr. LADISH. They vary, Senator. They were the heaviest in 1961 which was the drought year. You will recall our crop was very short. They were the heaviest since 1961, and since then they have been staggered, they are not great.

Senator YOUNG of North Dakota. Canada is doing a profitable business raising wheat for China and Communist countries.

Mr. LADISH. Correct.

Senator YOUNG of North Dakota. So they are not so interested in raising barley.

Mr. LADISH. Correct. We will supply those figures. For how long did you say, Mr. Senator?

Senator YOUNG of North Dakota. Five years.

The CHAIRMAN. All right.

Mr. LADISH. You say you'd have them?

Mr. LEJEUNE. We have a note.

Mr. LADISH. We will supply them in an orderly way.

We conclude by saying, however, if Congress and the Department of Agriculture feel that discretionary powers are required to properly administer the Agricultural Act of 1965, and in view of the favorable consideration received previously when supplies were inadequate, the malting and brewing industries would defer to Congress and the Department with respect to a malting barley exemption at the discretion of the Secretary—in the event that all barley at some time during the effective period of the act is designated a feed grain. If he never designates barley as a feed grain we won't be confronted with any of this.

The CHAIRMAN. We understand that.

Mr. LADISH. Yes. We conclude by saying that your favorable consideration of your request will be greatly appreciated. Thank you, gentlemen, for the privilege of testifying. If there should be any other questions we will try to answer them.

Senator McGOVERN. Mr. Chairman, could I ask one brief question? I notice, Mr. Ladish, on my State, South Dakota, that the production has drastically fallen off to about half what it was a few years ago. Do you know the reason for that?

Mr. LADISH. Senator McGovern? It is nice to see you, Senator.

Andy, would you like to answer that?

Senator McGOVERN. The rest have had a slight decline, but ours has been cut in half in a few years.

Mr. LEJEUNE. I believe the answer to it is that, first of all, I do not believe that we have a variety which is completely adapted to your State which will consistently produce high-quality malting barley. There is research work going on under way at Brookings at the college to develop such varieties, but none have come forth to this point, and this puts barley in a less favorable competitive position with other crops.

I think other crops, such as corn and soybeans have replaced to a considerable extent the former barley acreage which has disappeared.

Senator YOUNG of North Dakota. Senator, Malting barley is about like durum. It requires certain soil conditions and certain climatic conditions. I live near the South Dakota line; malting barley isn't nearly as easy for use to raise, at least good malting barley as, say, in the Grand Forks or Devil's Lake area. The same thing is true of durum. Ours is more apt to grade as feed barley than that raised up in the Red River Valley in the Grand Forks area; isn't this correct?

Mr. LADISH. Right. The climatic conditions are more arid, more dry, and barley does not develop so well there.

Senator YOUNG of North Dakota. Right.

Mr. LADISH. But don't you think, Andy, or maybe you did touch on it, that on the basis of returns, financial returns, to the grower, they are doing better on corn and soybeans—

The CHAIRMAN. That must be the reason.

Mr. LADISH. On corn and soybeans than they would on barley yielding the way it does in your area, Senator.

Senator McGOVERN. Thank you.

The CHAIRMAN. Thank you very much, Mr. Ladish.

Mr. LADISH. Thank you.

The CHAIRMAN. I am going to call on my good friend from South Dakota to introduce the next witness.

Senator McGOVERN. Mr. Chairman, I would like to introduce the director of the South Dakota Department of Game, Fish, and Parks, Mr. R. A. Hodgins. I am happy to present him to the committee to give his testimony.

The CHAIRMAN. Very well, Mr. Hodgins.

STATEMENT OF R. A. HODGINS, DIRECTOR, SOUTH DAKOTA DEPARTMENT OF GAME, FISH, AND PARKS, PIERRE, S. DAK.

Mr. HODGINS. Mr. Elliott is representing Colorado.

Thank you, Senator McGovern.

Senator YOUNG of North Dakota. I wish I could stay to hear your testimony, but I just have to leave. I will take a copy of your statement along with me.

Mr. HODGINS. Fine. Thank you, Senator.

The CHAIRMAN. Proceed, Mr. Hodgins.

CROPLAND ADJUSTMENT

Mr. HODGINS. First of all I want to thank you, Mr. Chairman, and the members of your committee for taking the time to hear our story. We are a great hunting State in South Dakota, and our prime game species is the pheasant, and I will be mentioning that species from time to time in my presentation.

Basic in any wildlife management program is the maintenance and improvement of habitat. Of primary importance to the welfare of the ring-necked pheasant is the maintenance and possible improvement of production habitat.

The constantly increasing human population and accompanying intensified use of agricultural land accentuates the urgency of finding ways and means of sustaining game production from the ever diminishing area of land available for wildlife purposes. An awareness of this problem has been shown by the many pheasant nesting studies that have been conducted throughout the United States. The South Dakota Department of Game, Fish, and Parks recently completed another of these studies, under Federal aid in fish and wildlife restoration program, Patman-Robertson project W-75-R-1 through W-75-R-5.

Data gathered through this investigation reveals that the soil bank has greatly contributed toward pheasant production in South Dakota and, by inference, throughout the Midwest.

Pheasant nesting habitat studies conducted from 1958 through 1962, provided information concerning pheasant production among 22 grassland, legume, and cropland vegetation (cover) types.

Cover groups most consistently ranking high with respect to size, volume of nest production, hatching success, and volume of brood production were soil bank, pastures, small grains, and grass hayland.

Based upon all data, the 5 leading cover types with respect to next production were (1) alfalfa hayland, 21 percent of total; (2) soil bank, 16; (3) pastures, 15; (4) small grains, 10; and (5) wetland, 10 percent, representing 72 percent of all nests established in these study areas.

The 5 most favorable groups with regard to hatching success of nests establishing in each cover groups were (1) flax, 46 percent; (2) small grains, 44; (3) pastures, 35; (4) soil bank, 33; and (5) grass hayland, 32 percent.

The 5 leading groups from standpoint of brood (hatched nest) production were (1) soil bank, 20 percent; (2) pastures, 19; (3) small grains, 16; (4) strip cover, 14; and (5) grass hayland, 9 percent, representing 78 percent of all successful nests.

The 5 cover groups containing the highest nest-per-acre densities were (1) fencerows, 10; (2) strip cover, 2; (3) soil bank, 2; (4) alfalfa hayland, 1; and (5) wetland, 1 nest per acre. Average nests per acre among field-sized cover groups was 0.6, or one nest per 1.7 acres of field area.

The 5 cover groups containing the highest hatched-nest-per-acre densities were (1) fencerows, 1.2; (2) soil bank, 0.5; (3) strip cover, 0.4; (4) wetland, 0.2; and (5) grass hayland, 0.2 hatched nests per acre. Average hatched nests per acre among field-sized cover groups was 0.2, or one successful nest in 6.3 acres of field area.

The CHAIRMAN. What do you mean by one successful nest? All hatched?

Mr. HODGINS. That means a nest that has hatched eggs. Some years we have poor weather conditions, and so forth, and a nest will produce only 3 young out of a clutch of, say, 10 or 15 eggs. Other years we have real fine years, and it will produce an average, perhaps, of eight young.

The CHAIRMAN. You mean to maturity or just eight will hatch out of the eggs?

Mr. HODGINS. At least, Senator, to submaturity. In August when we conduct our brood route studies we find an average then of about eight birds per brood with the hen.

The CHAIRMAN. Well, that means eight per brood. That would come to about what, from 12 to 16 eggs?

Mr. HODGINS. That would probably be a good round number.

The CHAIRMAN. That is not very bad particularly when they remain outdoors all the time.

Mr. HODGINS. They do remarkably well considering all the problems a hen pheasant has in producing a family.

The CHAIRMAN. Do you have much trouble in fighting off the predatory animals, birds, hawks, things of that kind?

Mr. HODGINS. Senator, when the conditions are right, when we have an adequate brood stock, when we have adequate habitat, that is good available nesting habitat, and when the weather favors us, predators, we feel, are no problem whatsoever.

The CHAIRMAN. In other words, they can hide where the grass is high enough?

Mr. HODGINS. First of all, they produce so very well that predators can eat a million birds and it has not hurt us. If we produce only 1 million birds, and the predators eat 1 million, of course, then we

are in trouble, but we can stand gradation, providing production is good.

In this study, soil bank—conservation reserve—was found to constitute the classic example of “ideal” production habitat—a cover type where the vegetation remained unmolested with exception of occasional clipping of some fields for weed control. As such, nests established within its confines were not only situated in good quality “protective” cover, but also in “secure” cover with respect to exposure to mechanical disruption by farming operations.

I will digress just a little bit. It has been established many times that alfalfa hayland is really our very best nesting cover in South Dakota. It comes up early and it produces the type of cover that the birds flock into to nest, but it is a death trap.

The CHAIRMAN. When you go to cut—

Mr. HODGINS. They commence cutting alfalfa about the 10th of June, a little bit earlier this year because we had a light front, and it just removes that field from production. The nests are destroyed, and in many cases the hens, too.

The CHAIRMAN. Wouldn't there be a way to locate the nests and get around—a farmer would not go to that trouble, would he?

Mr. HODGINS. Farmers who are dedicated hunters and conservationists try it. They put on flushing bars on their tractors and whatnot, but nothing seems to really solve the problem.

In addition, we have quite a lot of drying plants in South Dakota, particularly in the southeast end, where a contractor will buy the alfalfa in the field, and these fellows run—

The CHAIRMAN. He wants the hay and does not worry about what he does, what damage he does.

Mr. HODGINS. He has a time problem. He has to go out and harvest all the alfalfa that he possibly can within a limited period of time, and these tractors run day and night. They, perhaps, have to quit at some nights at midnight because of dew. But if it is good and dry, they will mow all night long, and I doubt if there are very few hens that escape that, and certainly none of the nests.

The CHAIRMAN. It is tragic. Proceed.

Mr. HODGINS. Carryover of the past year's—residual—vegetation into the following spring provided nesting cover for the earliest nesting hens and, together with the later new vegetation, afforded excellent nesting habitat throughout the entire season. This cover type, soil bank, ranked first in brood production—20 percent of total—even though ranking only sixth by size of cover area—6 percent of total.

The great value as nesting cover is perhaps even exceeded by its importance as year round protective cover on an extensive scale for carrying pheasant breeding stock through the rigorous late autumn, winter, and early spring seasons.

Apart from being an exceedingly important constituent of seasonal nesting cover abundance, residual vegetation is of paramount importance to pheasant survival on the winter range. It provides the vitally important protective cover needed by pheasants for survival on otherwise barren wind- and snow-swept land. To provide good residual cover, the vegetation must not be harvested and not otherwise severely depleted by grazing, mowing, plowing, and burning, in order that it will be in existence throughout the winter season and at the onset of the following year's nesting season.

Prevailing cropping practices in eastern South Dakota are constantly becoming more intensive and hence, unfavorable for the preservation and carryover of such cover.

In view of the anticipated increase in the demand and use of land, the outlook is poor on privately owned lands for realizing an increase, or even maintaining present residual herbaceous vegetation abundance levels—unless an intense consciousness is aroused in the public concerning the importance of this cover to pheasants and other small game species. Land can be farmed and groomed so intensively as to literally strip the pheasant of all his habitat needs. This need not necessarily happen.

Cropland adjustment programs can be of tremendous value for improving pheasant habitat if designed and administered with the welfare of pheasants and other small game species in mind. Relatively high importance of soil-bank vegetation as nesting cover was demonstrated by this study in that the conservation reserve cover type led all other cover types in the production of broods. Its value as year-round pheasant maintenance cover was excellent. Unfortunately, with the exception of a low number of unexpired contracts, this program is no longer in effect.

We in South Dakota cannot forget that, during the effective period of the soil bank, the State's average pre hunting season population of the pheasant rose from 5.5 million birds to 9.6 million, average annual harvest of pheasants doubled, from 1.4 to 2.8 million; and average number of nonresident hunters increased from 17,000 to 48,000, and incidentally this reached a peak in 1963 of 70,000 nonresident hunters.

The CHAIRMAN. Coming from all over the country?

Mr. HODGINS. Coming from——

The CHAIRMAN. I know some of my friends go up there, from Louisiana, almost every year.

Mr. HODGINS. I am almost certain there are people from every State of the Union in South Dakota during the pheasant season partaking with us of our abundance.

The CHAIRMAN. I guess those birds cost them about \$40 apiece or more.

Senator McGOVERN. It is worth it to be in South Dakota for a few days.

The CHAIRMAN. Just that air. I know all about South Dakota.

Tell me, how far does a pheasant usually migrate, let us say, if it is hatched on a farm of, say, 20 or 300 acres; how far off do they usually travel or fly?

Mr. HODGINS. He will probably live and die on that farm.

The CHAIRMAN. They come back, I guess, just like a chicken comes to roost in the same place every night, the same habit.

Mr. HODGINS. Very much so.

Senator AIKEN. Does a pheasant roost at night?

Mr. HODGINS. He is a ground rooster.

The CHAIRMAN. Ground.

Mr. HODGINS. Depending on the season of the year. He will be found in stubble or in the soil bank. I have many, many times observed and, Senator McGovern, too, I am sure, perhaps a thousand or more birds flying into a soil bank many, many times. It is common.

The CHAIRMAN. Proceed.

Mr. HODGINS. Our farmers and small businessmen cannot forget that the increase in nonresident hunters added more than \$6 million annually to our State's economy. In South Dakota \$9 of each nonresident small game hunter license fee is earmarked for the purchase of lands for public shooting and game production. Land acquisition, from earmarked funds of the 31,000 annual sales increase in nonresident small game licenses, totaled nearly 10,000 acres per year.

The CHAIRMAN. How many acres have you now altogether?

Mr. HODGINS. We are in ownership in fee title of about 172,000 acres of land.

The CHAIRMAN. Is that land all over the State or is it contiguous?

Mr. HODGINS. It is all over the State.

The CHAIRMAN. All over the State.

Mr. HODGINS. We purchase in parcels anywhere from 10 acres to 2,000.

The CHAIRMAN. What do you do with that land?

Mr. HODGINS. A good share of this land is marginal or it is submarginal type land. We buy a great deal of wetlands when they are available.

The CHAIRMAN. Wetlands, you mean boggy, soggy?

Mr. HODGINS. Boggy.

The CHAIRMAN. You get ducks there in addition to pheasants?

Mr. HODGINS. That is right. We have for a long time seen the problem of the duck, so we try and buy land where there is a slough, and buy enough cropland so we can develop it for winter cover or nesting cover, whatever is needed for the pheasant in that particular area.

The CHAIRMAN. And ducks hatch there in the spring, do they not?

Mr. HODGINS. Oh, yes. South Dakota and North Dakota are, perhaps, the two most important States of the Union for waterfowl production, for duck production.

The CHAIRMAN. I am glad to see that the State has taken that much interest in it.

Mr. HODGINS. I might add that the fact that we are purchasing something like 10,000 acres a year is also serving the purpose of the cropland adjustment program in that we are retiring some of these acres that have been more or less unprofitably farmed by farmers or they put crops in, and some years they take a crop out, but they have not been able generally to make a good living at it, and we take it, we buy it, and put it into the production of game instead of oats and corn.

Senator AIKEN. What do they do after they sell the land? Do they board hunters or what?

Mr. HODGINS. Well, the people from whom we buy the land leave it. In some cases they take their money and they go and buy something somewhere else.

Senator AIKEN. Yes.

Mr. HODGINS. Often we only buy a part of the farm, the wet part, and so forth.

The CHAIRMAN. What do you do with that land after you produce the bird, do you charge a fee for the hunters to kill the birds, as would the farmer?

Mr. HODGINS. No, Senator. They are free public shooting areas, free to any person who is a license holder in our State whether he be resident or nonresident.

The CHAIRMAN. Resident or not, so long as he has a license?

Mr. HODGINS. Yes.

The CHAIRMAN. But the difference in the cost of the license between a resident and a nonresident is quite a difference.

Mr. HODGINS. Yes, sir. There is a difference. It costs a resident \$2 for a small game license, and a nonresident \$25, of which \$9 is earmarked for the purchase of these lands.

The CHAIRMAN. All right, proceed.

Senator AIKEN. Does your \$25 just cover waterfowl or does it cover deer and other game?

Mr. HODGINS. This \$25 covers only upland small game, pheasants, grouse and quail, Hungarian partridge.

Senator AIKEN. Chuckers.

The CHAIRMAN. I suppose you have got a bagging limit on them, haven't you?

Mr. HODGINS. It varies from year to year. In a good year it would, perhaps, be 5 daily with a possession limit of 25. Last year we had rather poor hatching conditions. Our habitat was depleted due to a bad drought. The farmers had to pasture everything they had right down to this level, the same as the table. The humidity was very low, the temperatures were very high. We had a disappointing year last year.

Senator AIKEN. Does the State delegate rulemaking regulations to the Commission?

Mr. HODGINS. Yes. Our Commission has the authority and the responsibility of establishing season lengths, daily bags, the whole works.

The CHAIRMAN. If a nonresident should buy a license for \$25, he is limited to 25 birds in that 1 year?

Mr. HODGINS. That is so, Senator. And in a year when the limit is only 2, then he is limited to 5 times the daily bag or it would be 10 birds.

The CHAIRMAN. But the same license?

Mr. HODGINS. Same license.

The CHAIRMAN. You do not change it?

Mr. HODGINS. No, sir.

Senator AIKEN. If a nonresident buys, we will say, \$5,000 worth of property he then gets a resident license?

Mr. HODGINS. No, sir. He must reside in the State to be a resident for the purposes of this license.

Senator AIKEN. I see.

The CHAIRMAN. All right.

Mr. HODGINS. The South Dakota Department of Game, Fish, and Parks pays full taxes to the local political subdivisions on these lands we have purchased.

Senator AIKEN. How many States do that?

Mr. HODGINS. I believe, sir, we are the only one.

Senator AIKEN. I do not know of any others that do that.

Mr. HODGINS. Our tax bill runs in excess of \$50,000 a year in real property taxes, and it goes up, of course, every year as we continue our program.

The CHAIRMAN. But you get most of that back though through fees, do you not?

Mr. HODGINS. I would doubt, Senator, that the ownership of these lands increases our license sales drastically. We probably would sell about the same number of licenses.

The CHAIRMAN. Even though you did not have the land?

Mr. HODGINS. Even though we did not own the land, but the hunters, resident and nonresident, would probably not enjoy such good success.

The CHAIRMAN. Well, it invites more people to come to your State.

Mr. HODGINS. It does that, and it also gives it some protection to the waterfowl. They need a place to nest.

The South Dakota Department of Game, Fish, and Parks pays full taxes to the local political subdivisions on these lands, creating exceptional local and State acceptance of the land acquisition program.

The pheasant is important to South Dakota. To assure his availability in this fast moving era to our residents, and to our neighbors throughout the world, we earnestly solicit your support of title V—Cropland Adjustment of S. 1702.

There is a point I am very sorry I left out of this brief, and that is this: if this program resembles the old soil bank, you will be paying a farmer, perhaps, let us say, \$20 an acre to retire an area of land from production.

I am hopeful that you might give some consideration to offering him another option in addition to this, over and above, perhaps, 10 percent of his original subsidy or whatever you call it, to allow this land to be used for the public. I will explain my problem a little bit.

In the heyday of the soil bank program, some farmers put their entire acreage in the bank and moved to town, or perhaps they moved out to another State, and his neighbors or someone from town or even nonresidents in some cases, would come out and would post his land "No trespassing," or perhaps, "Hunting with permission only," which is very cynical because there was nobody to go ask, and so many, many, many farms were just not available to anybody to hunt.

Now, if an individual were to put his land in the soil bank or in any program, at this rate of \$20 an acre, and then if he could get another or \$2 an acre for this additional benefit, I am pretty sure he would buy it, and then this land could be so posted as being in the Cropland Adjustment Program, and open to public hunting.

The CHAIRMAN. So that Uncle Sam would be not only subsidizing the farmer there but he would be subsidizing the hunters.

Mr. HODGINS. He would be subsidizing that portion of the taxpaying public who are financing this program, sir.

The CHAIRMAN. I know.

Senator AIKEN. In effect, the public leases the land, almost.

The CHAIRMAN. It sounds good.

Senator AIKEN. I do not know why you should have to pay him a dollar extra.

The CHAIRMAN. He says 10 percent.

Mr. HODGINS. This I would be very happy to leave up to this capable committee to work it out. It is just a thought I would like to convey here that it would certainly be helpful to the hunting public of South Dakota and the rest of the country as well.

The CHAIRMAN. If he puts his whole farm in, I do not see why, with the regular payment, he should not be permitted to leave it under the jurisdiction of the State game preserve, whatever you have.

Mr. HODGINS. This would be very well if it could only be done.

The CHAIRMAN. Let it be so that the public would get some benefit out of it.

Mr. HODGINS. I cannot see in any way——

The CHAIRMAN. Let there be, in other words, a condition for payment.

Mr. HODGINS. Yes.

The CHAIRMAN. It is a good suggestion and we will think about it.

Mr. HODGINS. It could be if an individual is putting in 40 acres of his 640 acres into this program, that he may want to reserve these 40 acres for himself and his friends to hunt. This I have no quarrel with so long as he is there. But if he is going to put the whole works in and leave the country——

The CHAIRMAN. I do not think you need worry that this committee is going to enact another program of soil bank to which you are now referring because I know many cases in which people bought the land, and Uncle Sam paid for it.

Mr. HODGINS. I do, too.

The CHAIRMAN. That was obnoxious. It was a practice that smelled, and if we enact title VI or anything on it, we will try to take care of your suggestion.

Mr. HODGINS. Thank you.

The CHAIRMAN. Thank you very much, sir.

Mr. HODGINS. Thank you very much.

Senator McGOVERN. That is a good statement. I strongly support doing whatever we can in the bill finally reported to encourage permission of public use of retired acreages for hunting, fish and wildlife purposes.

When we examine the matter of payments, I think we will find that many farmers now sell hunting privileges over their land to groups and clubs, and that farmers who permit public use are equitably entitled to a reasonable additional payment.

I think the landowners in the Dakotas are especially entitled to consideration for they provide nesting area for ducks which are hunted in many States.

I am very much interested, Mr. Chairman, in a possibility that suggests itself here of a cooperative State and Federal game land acquisition program. Mr. Hodgins tells us the State sets aside \$9 from each nonresident hunting license to acquire land. If we authorized the Department of Agriculture to pay the States 10-year rentals, or adjustment lease payments, on croplands they buy and retire, they might be able to increase their acquisitions greatly, to the benefit of everyone, farmers, hunters, the States, and the Federal Government.

The CHAIRMAN. It is a very interesting statement.

Mr. Elliott.

STATEMENT OF ROBERT R. ELLIOTT, CHAIRMAN, LAND RESOURCES COMMITTEE, INTERNATIONAL ASSOCIATION OF GAME, FISH, AND COMMISSIONERS, DENVER, COLO.

Mr. ELLIOTT. Mr. Chairman and gentlemen, it looks like I am batting cleanup on the wildlife end of this hearing, and I am not going to try to get a homerun, but maybe a single.

The CHAIRMAN. We will get you for dessert.

Senator AIKEN. The bases are not loaded anyway.

Mr. ELLIOTT. I will promise you one thing, I will be brief.

The CHAIRMAN. Proceed.

Mr. ELLIOTT. I am Robert R. Elliott of Denver, Colo. I am representing the International Association of Game, Fish and Conservation Commissioners as chairman of the land resources committee. On behalf of our association I thank the committee for permitting us to submit testimony at this hearing. I am especially grateful to Senator Gordon Allott for his assistance.

We enthusiastically endorse the provisions of title V—cropland adjustment, contained in S. 1702. Although I have read the remainder of the bill I do not feel qualified to comment on the other titles.

I would like to add, however, gentlemen, that title II, the feed grains program has been beneficial to a certain extent to wildlife, but inasmuch as this particular has the wildlife features contained primarily in title V, this is what I will confine my comments to.

The Soil Bank Act of 1956 and the agricultural conservation program (ACP) have brought forth many benefits to the lands and people of our country, and I agree, Senator Ellender, it has brought about some disadvantages by unscrupulous practices, we certainly concur with you.

The CHAIRMAN. Misadministration.

Mr. ELLIOTT. I did not say that.

The CHAIRMAN. I did.

Mr. ELLIOTT. Yes, sir.

The conservation practices set up for wildlife, particularly in ACP, were not always the best for wildlife, but we realize that this legislation is designed for agriculture programs, not wildlife programs. Game animals and fish, and many of our outdoor recreational activities are products of the land. We all recognize this. We realize also that proper stewardship of the soil, water and vegetation is absolutely mandatory if we wish to continue tasting these fruits of the land. Were it not for farmers and ranchers who have practiced good land stewardship we would not have the country of game and fish and recreation that we have today. Therefore it behooves all of us—farmer, sportsman, recreation seeker, Federal and State employees—to work together for a land-use program that everyone can enjoy.

S. 1702 under title V provides a basis for such a land management program. It is a big step in the right direction. Extension of the soil bank program to December 31, 1979, lengthening contract terms from 3 to 5 years, and other beneficial amendments as outlined under title V are most encouraging. We are particularly pleased with the addition of subsections (b) and (c) to section 118 of the Soil Bank Act, wherein the Secretary may transfer funds and share costs with State and local governmental agencies to acquire croplands for the

preservation of open spaces, natural beauty, development of wildlife and recreational facilities, and the prevention of air and water pollution. This in effect makes the States partners with the Federal Government to retire croplands and develop these lands for other uses.

We are confident that with closer cooperation, pooling of resources, including money, and inspiration from a sound and meaningful program, we can bring about quicker realization and enjoyment of all these "good things."

Our association stands ready to cooperate with the Secretary of Agriculture in every way practicable. With the passage of S. 1702 we can continue to reap these benefits, and this will be due to the foresight and wisdom of the 89th Congress, the Secretary of Agriculture, and his staff. We sincerely and earnestly urge that Congress make this bill—law of the land. A play on words is intended.

In addition, gentlemen, I have attached to your copy of the statement a copy of the recommendations that we of the committee made to the Secretary, and it was very gratifying to us to see that many of these recommendations have been contained in the proposed bill, if not in detail, at least in substance.

(The document referred to follows:)

DENVER, COLO., March 29, 1965.

HON. ORVILLE L. FREEMAN,
Secretary of Agriculture, Department of Agriculture,
Washington, D.C.

DEAR MR. FREEMAN: Meetings have been held in Washington March 9, 1965, and in St. Paul, Minn., March 24, 1965, with representatives of USDA Bureau of Sport Fisheries and Wildlife, National Wildlife Federation, International Association of Game, Fish & Conservation Commissioners, Minnesota and Wisconsin Conservation Departments attending one or both meetings. We have discussed the cropland retirement programs of USDA quite thoroughly and objectively, we feel. We are now prepared to submit recommendations to you suggesting how wildlife and agricultural practices can be worked together for mutual advantage.

We assure you that the meetings thus far have been conducted in an atmosphere of complete cooperation, and officials from all services of USDA have been most helpful. Our approach to the subject matter has been keyed to how agricultural practices can be modified to benefit agriculture itself and at the same time to provide benefits to wildlife. We feel the Federal farm programs are agriculture programs, not wildlife programs.

The time is opportune for farmers, sportsmen, Federal and State resource managing agencies to willingly cooperate in developing a land use program that all can enjoy. We earnestly request that you seriously consider our recommendations, and that you include these provisions in your presentation of the agriculture program to the 89th Congress.

Very truly yours,

ROBERT R. ELLIOTT,

Chairman, Land Resources Committee, International Association of Game,
Fish & Conservation Commissioners.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE OF FARM PROGRAM PRACTICES TO BENEFIT WILDLIFE

1. Urge that Congress enact legislation which will provide for a cropland retirement and/or diversion program for a minimum of 5 years.

Comment: One-year programs just cannot provide sufficient cover to be of significance to game birds and small mammals.

2. Payments shall be made to farmers who establish and keep herbaceous cover crops suitable for wildlife on the same plot of ground for a maximum of 5 years. These payments shall be in addition to the base payments made for diverted acres, and shall start the second year the herbaceous wildlife crop is in. Farmers may select this practice at their option on a yearly basis. All field operations shall be conducted so as to minimize damage to wildlife.

Comment: Designed to encourage farmer to plant legumes primarily and leave them on the same site for wildlife propagation and protection. This practice would provide bonus or incentive payments to the farmer for leaving the crop during the second, third, fourth, and fifth years. For example, if he planted a legume on 10 acres of his diverted acreage under the feed grain program, he would be paid the current rate for the first year, say \$20 per acre. Then if he left the clover or alfalfa in the second year, he would get an additional payment of \$6 per acre, and if he left it the third year he would get his \$6 per acre additional payment, and so on—\$26 per acre per year through the fifth year. If he plowed it under after the third year, then of course he would not receive any bonus payment the fourth year. This would be the individual farmer's selection and on a yearly basis. Clipping, grazing, spraying, burning, etc., would not be permitted on the plots, except as provided by local ASCS committee agreement on control of noxious weeds.

3. Detailed specifications of the practice(s) shall be left to the discretion of the Secretary of Agriculture, and local requirements or deviations shall be permitted to meet varying conditions in different sections of the country.

Comment: State and county ASCS committees of necessity, would have to work out their own ground rules.

4. Justification of the additional payments can be made on the basis that better soil management would be affected; the problem of accumulation and storage of surplus farm products would be alleviated to a certain extent; and some savings would be made in reducing costs of administering the program such as measuring fields each year.

5. It is further recommended that the Secretary of Agriculture specify that State game and fish conservation agencies be represented as an advisory member (nonvoting) of the State ASCS development group for developing technical specifications.

Comment: Some State game and fish departments are presenting providing technical assistance, but if the Secretary requested such representation on the State groups, it is certain that many more States would hasten to cooperate. Only by close cooperation and coordination of effort between the State and Federal agencies can effective and mutually beneficial land use programs be put into existence.

(Submitted by Land Resources Committee, International Association of Game Fish & Conservation Commissioners, and advisory groups from Minnesota, Wisconsin, and other States.)

Mr. ELLIOTT. I would like to add, too, that members of the committee and myself have been in consultation with members of the U.S. Department of Agriculture here in Washington and in St. Paul, and I hope on all the State levels in order to assure them that we will work with them very closely in working out the details and the implementation of this bill when it does become law.

I stand ready to try to answer any questions you gentlemen have.

The CHAIRMAN. You have made a very concise statement, an understandable statement.

I do not have any further questions. Have you any questions, gentlemen?

Senator AIKEN. No.

The CHAIRMAN. Thank you ever so much.

Mr. ELLIOTT. Thank you.

The CHAIRMAN. Let the record show that the statements presented by Senator McGovern will be filed for the record and the staff will get excerpts from it and put them in the record at the proper place.

(For the statements referred to above, see p. 266.)

The committee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 4 p.m., the committee recessed to reconvene at 10 a.m., Wednesday, June 23, 1965.)

FOOD AND AGRICULTURE ACT OF 1965

HEARINGS BEFORE THE COMMITTEE ON AGRICULTURE AND FORESTRY UNITED STATES SENATE EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

S. 399, S. 598, S. 891, S. 939, S. 994, S. 1563,
S. 1702, S. 1794, S. 1838, S. 2025, S. 2079, S. 2110,
and S. 2111

BILLS TO MAINTAIN FARM INCOME, TO STABILIZE PRICES
AND ASSURE ADEQUATE SUPPLIES OF AGRICULTURAL
COMMODITIES, TO REDUCE SURPLUSES, LOWER GOVERN-
MENT COSTS AND PROMOTE FOREIGN TRADE, TO AFFORD
GREATER ECONOMIC OPPORTUNITY IN RURAL AREAS,
AND FOR OTHER PURPOSES

PART 2

JUNE 23, 24, 25, 28, 29, AND JULY 15, 1965

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FOOD AND AGRICULTURE ACT OF 1965

WEDNESDAY, JUNE 23, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 o'clock a.m., in room 324, Old Senate Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender, Eastland, Jordan of North Carolina, Bass, Montoya, Russell of South Carolina, Aiken and Miller.

The CHAIRMAN. The committee will please come to order.

We are now in the process of considering all farm bills before the committee, and there are many, and we will start off with Mr. Cortright.

Is he present?

Have a seat, Mr. Cortright.

STATEMENT OF G. C. CORTRIGHT, JR., PRESIDENT; M. K. HORNE, JR., CHIEF ECONOMIST; AND J. BANKS YOUNG, WASHINGTON REPRESENTATIVE, NATIONAL COTTON COUNCIL

Mr. CORTRIGHT. Mr. Chairman, and gentlemen of the committee, my name is G. C. Cortright, Jr. I am a cotton farmer of Rolling Fork, Miss. I also am president of the National Cotton Council, central organization of the American cotton industry, with headquarters in Memphis, Tenn.

COTTON

In the beginning I would like to present a few facts on what has happened during the last year under the Agricultural Act of 1964, whose essential feature was to make raw cotton available to domestic mills at the same price as it is available to foreign mills.

In doing this, I am not trying to develop any across-the-board arguments for or against this legislation. My purpose is to try to clear up some points which may have been distorted, or virtually forgotten, in all the clamor we have had over this short-term emergency program.

The facts I want to present are drawn from a careful study of both the direct and indirect effects—in the domestic market—of one-price cotton at much more competitive levels. A copy of this full study is attached to this statement and I request that it be made part of the record.

The CHAIRMAN. Have you it with you?

Mr. CORTRIGHT. It is attached, sir.

The CHAIRMAN. To your statement?

Mr. CORTRIGHT. Yes, sir.

The CHAIRMAN. Without objection it will be done.

Who made that study?

Mr. CORTRIGHT. The council's economist, Dr. M. K. Horne, who prepared the study, is here to answer any questions you many have about it.

The CHAIRMAN. We will have to go over it. We won't be able to ask questions unless you can describe it in detail.

Mr. CORTRIGHT. There are six facts in particular we would want to bring to your attention about this study.

Fact No. 1. Under the bill, the disastrous competitive losses to rayon which cotton had been suffering in the domestic market have been brought to a halt and even reversed. This was the "emergency," the shift away from cotton to rayon. The short-term program has succeeded in coping with it.

Senator EASTLAND. What is the price of rayon?

Mr. HORNE. 28 cents a pound, delivered to the mill.

Senator EASTLAND. And the price of cotton to the mill is what, 23 cents?

Mr. HORNE. On the 15 official spot markets it is a little more than that.

Mr. CORTRIGHT. Fact No. 2. One-price cotton has sharply reversed the upward trend of yarn imports and has helped to slow down the rising tide of imported cloth.

Fact No. 3. The confidence engendered by one-price cotton has helped generate a spectacular expansion in the textile industry's investment in new plants and equipment. A survey by the Department of Commerce reveals that during the latter half of 1965 our textile industry plans to invest in new plant and equipment at an annual rate corresponding to \$1.1 billion. This represents an increase of 83 percent over the rate prevailing in the early part of 1964, and compares with 26 percent increase for all manufacturers.

Fact No. 4. Employment in the textile mill products industry and in the apparel and related products industry increased in 1964 as contrasted with 1963, as did the average weekly earnings per worker, the total wages paid in these two industries increased by \$360 million in 1964.

Fact No. 5. Despite an unprecedented surge of demand for textiles, there have been some important declines in the price of cotton yarn and cloth. Of the 20 constructions of unfinished cotton cloth on which the Department of Agriculture quotes monthly prices, the 11 heaviest constructions, such as sheeting, twills, and osnaburgs, show a price decline from March 1964, to March 1965. In the 9 lightest fabrics, in the group of 20, where cotton is less important and labor cost more important, prices have advanced somewhat—though not nearly so much as comparable man-made fiber goods.

Fact No. 6. Textile mill profits in 1964 had a significant and much needed improvement, although they were still only 3.1 percent of sales, as compared with 5.2 percent for all manufacturing.

These are facts that I particularly wanted to bring to the attention of the committee. There are many other facts in Dr. Horne's study, all fully documented, and he will be glad to answer questions about any of them.

There is one other fact that we must also face frankly. Our cotton export program is not working satisfactorily. Our cotton is not being kept competitive in price in the world market. As a consequence we have failed by over 5½ million bales to achieve our proportionate share of the growth that has taken place in the free world demand for cotton in the last 4 years.

The CHAIRMAN. Have you any suggestions as to how that could be improved?

Mr. CORTRIGHT. Well, there are obviously several ways that you can get competitive, Senator.

The CHAIRMAN. Well, as was stated last year, one-price cotton would turn the trick. That was the argument made last year when this bill was enacted that you and others supported.

Mr. CORTRIGHT. We said that a competitive price in the domestic market would halt the losses cotton was suffering and reverse the trend from cotton to rayon which had been taking place and we feel it has reversed that trend.

The CHAIRMAN. You didn't say rayon, you said manmade fiber.

Mr. CORTRIGHT. Man-made fibers?

The CHAIRMAN. That is what you said.

Senator JORDAN. That is what rayon is.

The CHAIRMAN. I understand, but you have others than rayon. I hope that you cover in your statement the predictions made as to carry-over and cost of this program.

If you don't I have it available.

Senator EASTLAND. I think it ought to be made part of the record. Could I ask a question?

The CHAIRMAN. Surely.

Senator EASTLAND. I want you to describe now just what the Department of Agriculture is not doing, what is the reason we don't have our proportionate share of exports?

Mr. CORTRIGHT. I think it is easier to describe what they are doing.

Senator EASTLAND. All right. What are they doing? What is the reason for it?

Mr. CORTRIGHT. The Department, under their interpretation of section 203 of the Agriculture Act of 1956 which provides that CCC stocks of cotton shall be made available for export at the same price as foreign cotton is selling in substantial quantities in foreign countries.

In administering this provision the Department announces that the export price is subject to change without notice. They announce a price at the first of the year, but the fact is that historically since 1956, the price has never been changed during the marketing year. I think that foreigners realize that this has become rather fixed policy and once a price is announced they know this is going to be the fixed price for the full year and are able to adjust their price slightly to undersell us.

Senator EASTLAND. They just slightly undersell us.

What you are saying is we don't follow the market up or down, is that it?

Mr. CORTRIGHT. We have kept our export during the year constant.

Senator EASTLAND. We hold an umbrella over them, is that right?

Mr. CORTRIGHT. An umbrella, in effect.

The CHAIRMAN. How did the operations differ last year to those in the current year?

Mr. CORTRIGHT. I think the greatest difference last year compared to the current year was that last year carrying charges were not added to our export price. This year carrying charges, I believe in the amount of 10 or 12 points a month are being added to our export price.

The CHAIRMAN. And is it your view that that alone caused foreign mills to buy less cotton than they did the year before?

Mr. CORTRIGHT. No, sir.

The CHAIRMAN. What else?

Mr. CORTRIGHT. I think we are continuing to operate an export program that makes us a residual supplier, the difference between what foreigners produce and what the foreign free world consumes. The residue for us was just less this year than last year.

The CHAIRMAN. What would you expect the Department to do in that respect? Tell us what you would have done had you been Secretary under the law that we enacted last year? That is what I want to find out. It is easy to criticize. I would like to know what you would do.

Mr. CORTRIGHT. Several things that could be done——

The CHAIRMAN. No; I want to know what you would have done in order to increase the export of cotton.

Mr. CORTRIGHT. Well now, I can only give my personal opinion. I would not be speaking as a representative of the cotton council.

The CHAIRMAN. Keeping in mind the laws under which you would have to operate.

Mr. CORTRIGHT. Yes, sir.

The CHAIRMAN. That is what I am talking about.

Mr. CORTRIGHT. I personally have always felt there was considerable merit in a bid subsidy approach in the export program as long as we were operating under the laws that are now in effect.

The CHAIRMAN. What do you mean by that?

Mr. CORTRIGHT. That the trade would bid regularly for the amount of subsidy it took for them to move cotton into export.

The CHAIRMAN. Well now, what was the subsidy that the Government allowed this current year compared to last year, do you know?

Mr. CORTRIGHT. It is six and a half cents, I believe this current year, and I believe it was roughly eight and a half cents prior to the enactment of the Agricultural Act of 1964.

The CHAIRMAN. Why was that difference made, do you know, from eight and a half to——

Mr. CORTRIGHT. It was largely a change in support price of cotton. When the price support was lowered, it took less subsidy to maintain the same world price.

The CHAIRMAN. What was the subsidy indirectly paid to the mills—per bale, do you know?

Mr. CORTRIGHT. The equalization payment to make cotton competitive in the domestic market, I believe also this past year it has been six and a half cents.

The CHAIRMAN. I thought it was more than that.

Proceed.

Mr. CORTRIGHT. Now, with this background on the current program, I would like to move straight into the critical cotton questions that face the Congress, the Nation, and the cotton industry.

The Council understands full well that the cotton carryover, and Government program costs, must be reduced. The question is not whether this will be done, but how.

Essentially, there are two choices:

(1) The Government can move in the direction of drastic curbs on production; or

(2) The Government can pursue a policy aimed at resolving the problem through major expansions in the markets for American cotton.

We realize that there are intense pressures to adopt the first alternative—that of drastic curbs on production. But I want to say to you, without equivocation, that this alternative can only lead to the destruction of cotton as a major American industry.

Our greatest need today is for dramatic improvements in cotton production efficiency. We must substantially reduce unit costs if farmers are to meet price competition on their own, without government subsidies. Through science and technology, we are moving vigorously toward that goal, and we clearly have the potential for achieving it.

But the farmer is like any other businessman who has heavy overhead expenses. To be efficient, he must be able to spread that overhead across a large enough number of producing units. And today, the farmer's volume of production is as low as it can go without significant sacrifices in efficiency.

A major cutback in production would not only reduce the number of bales the farmer would have to sell. It would also have the disastrous effect of raising the farmer's unit costs. It would raise these costs sharply at a time when the basic price support level has just been reduced by \$17.50 a bale.

The imposition of this kind of cost-price squeeze would further sap the grower's ability to meet price competition. A higher price or a heavier subsidy would be necessary to maintain income. Since subsidies apparently must be decreased—not increased—it's virtually certain we would see actions to raise market prices to noncompetitive levels. This would completely destroy our export market; shrink our domestic market; and reduce production to the point where American cotton would take on the status of a speciality fiber, with its use strictly confined to the domestic market.

Gentlemen, this is what we are talking about if we move in the direction of major cutbacks in production. We are talking about the demise of the American cotton industry. And certainly this demise would have far-reaching implications for all of agriculture and the Nation.

Consider what would happen if millions of highly productive cotton acres should have to be forced into other uses. The council has researched this thoroughly, and our findings were released last December in a study entitled, "How a Major Cut in Cotton Acreage Could Affect the American Agricultural Economy." A copy of this study—which was based on the very real possibility that cotton acreage might well be progressively reduced by half—is attached, and I also ask that it be made a part of the record. The council's agricultural economist, George Townsend, who prepared the study, is here to answer any questions you may have concerning it.

I will simply quote the following major conclusions from the study:

SHORT-TERM EFFECTS

Even though the 8 million former cotton acres are diverted to the next most profitable crops, gross income from this land could be expected to drop by well over 50 percent, even if prices of the other crops did not decline.

Soybean production would be increased by something like 69 million bushels—adding to the danger of oversupply and lower prices.

Feed grain production would likely be increased by close to 5 million tons—thus increasing the already serious problems of oversupply.

Commercial vegetable production would probably be increased by nearly 3 million tons—which could completely demoralize the markets for the products.

LONG-TERM EFFECTS

As cotton shrinks in importance, those who once built their operations around this crop would have to develop new farming systems; inevitably, their new emphasis would be on growing more feed—plus conversion of this feed into beef, milk, pork, eggs, and broilers.

Substantially larger supplies of animal products would have a depressing effect on prices throughout the whole livestock economy of the Nation.

The impact on beef would be especially heavy because the Cotton Belt, with low-cost forage to go with its feed grain potential, would have a competitive advantage in cattle production.

Gentlemen, this is what is in store for American agriculture if farmers lose cotton as a major crop. But the total effect would, of course, be felt throughout the whole national economy. Over 9 million people depend wholly or in substantial part on income from cotton. All told, this income amounts to something like \$15 billion a year. As one of the Nation's top exports, cotton is a vital source of strength in meeting our critical balance-of-payments problem. If we lose cotton as a major industry, the impact will be felt by everyone.

Obviously, we do not wish to follow a course of action which will bring this about. This brings me to the other alternative that is available—the alternative of a Government policy aimed at resolving the supply problem, and the cost problem, through expansion of cotton's markets.

This is, of course, the only approach that could be recommended by the National Cotton Council. Our whole reason for existence is to hold and expand cotton's markets and to improve the welfare of cotton people.

The heart of our program—where virtually all of our money is spent—is research and promotion to improve cotton's competitive strength.

In the long run, we know that research has to be the primary answer to our price problem. Over 2 years ago, with the cooperation of Federal, State, and industry authorities, the council completed a study fully documenting the fact that research could lower cotton production costs by at least 11 cents a pound—more than enough to eliminate the need for subsidies. We are working on this potential with every resource at our command.

Through genetics and breeding—as well as through chemical modifications—we have a potential for improving cotton quality that has scarcely been explored. Our effort to capitalize on this potential is constantly expanding.

Moreover, we are making real progress in developing promotion programs which will be capable of countering the massive sales efforts of the manmade fibers. This is true in the domestic market, where

we have recently moved out strongly in the field of direct consumer advertising.

Very important, too, is the fact that most of the major cotton producing countries have recently reached tentative agreement on financing a multimillion-dollar program of international cotton promotion.

I mention these developments for two reasons:

First, to show what an enormous potential cotton has for bolstering its competitive capabilities and achieving self-sufficiency; and

Secondly, to show that rapid progress is being made in exploiting that potential.

Certainly there can be no question about the cotton producers' determination to become competitive in research and promotion. They not only contribute to the Cotton Council, but in recent years have assessed themselves an additional dollar a bale for the Cotton Producers Institute, which spends all of its money on research and promotion.

All told, the combined budget of the council and the institute is now at a level of \$6 million a year. This is still comparatively small in terms of our needs. But our producer leaders—with the wholehearted cooperation of the rest of the industry—are working tirelessly to erase our deficit in research and promotion. They are going to succeed. Cotton research and promotion will be expanded by many millions of dollars in the years just ahead—if we can have a Government policy which will permit the industry to survive and go forward.

Now, what are the fundamentals of such a Government policy—a policy geared to market expansion for American cotton? The entire cotton industry—as represented by the seven primary interests which comprise the National Cotton Council, is united in advocating the following policy objectives:

First, we must have a permanent one-price system. Experience has shown conclusively that a two-price system destroys our domestic market by stimulating cotton textile imports and by driving our American mill customers toward the use of synthetic fibers, which are available at world prices. Today we have to compete at world levels in the American market.

Second, we must seek to preserve and expand both our domestic and our export markets. Neither market is expendable. It takes both of them to support a level of production that will permit the efficiency we must have to survive. Our industry would surely be destroyed by any policy which considers either market expendable.

Third, the Government should put maximum emphasis on research as a means of moving toward the goal of self-sufficiency for cotton. Specifically, we are urging full implementation of the \$10 million cost-cutting program authorized by the Congress in the act of 1964, at the earliest possible time. In combination with the research being done by the cotton industry itself, and that by allied suppliers, this will help us move swiftly toward capitalizing on our maximum potential for cost reduction.

Fourth, the Government should have the objective of encouraging, not penalizing, those farmers who have the potential of growing cotton at the lowest possible cost. These farmers represent our only hope for building a dynamic, self-sufficient cotton industry. Yet

they have had to bear the brunt of price and acreage reductions thus far. They should be encouraged. They should not be penalized by such things as a further reduction in the national allotment and the proposed restriction on skiprow planting, a practice which has added to the efficiency of thousands of farmers in many parts of the Cotton Belt.

Fifth, in making the adjustment away from subsidies, the Government should have the objective of providing reasonable farm income at levels which will justify the capital uses in cotton production that are so urgently needed for increased efficiency. Specifically, we believe that changes in support, from a base level, should be related to changes in production costs.

Sixth, the Government should move as rapidly as possible to develop a long-range policy geared to market expansion. While short-term programs can be helpful in meeting an emergency, they create an enormous amount of damaging uncertainty about what is to follow.

Our cutomers, and potential customers, will always be afraid of cotton until such time as they can count on a firm, long-range policy permitting market expansion. Without a reasonable degree of stability in cotton policy, they simply cannot make the kind of forward plans that are required for using our fiber in their design, styling, processing, manufacturing, merchandising, and advertising programs.

Remember, too, that it is essential for producers and others to have confidence in the future coure of Government cotton policy if they are to make the heavy investments that are necessary to improve industry efficiency. So we sincerely hope that a long-range policy will be among your major objectives.

Gentlemen, as I said earlier, the cotton industry is fully united in recommending these objectives in Government cotton policy. There are some differences of opinion on methods and approaches for achieving them—as you gentlemen well know. But I want to emphasize that there are no differences on these basic objectives, and we strongly urge the committee to keep them firmly in mind, and to see to it that each and every one of them is fully met in whatever policy is ultimately adopted.

We have tried to make it clear that the solution does not lie in drastic and continuing cutbacks in production. This would be a policy of retreat. It would defeat the long-range national interest to adopt a policy which is simply aimed at getting rid of excess stocks and reducing Government program costs for the short run—without regard to whether this policy would destroy an industry which plays such a vital role in the economic life of America.

A great opportunity lies before us. Textile fiber markets are expanding tremendously in this country and throughout the free world. In the years ahead, cotton not only has a chance to compete in a far bigger market; it also has the opportunity—through sharply expanding programs of research and promotion—to attain a larger share of that market.

If we are farsighted and constructive—if we put our emphasis on market expansion rather than on immediate and drastic cutbacks in production—we can overcome the cost and carry over problems that seem so grave at the moment. We can move to the day when cotton will be fully competitive on its own, without reliance on heavy Gov-

ernment subsidies. This is the ultimate goal of our industry. We hope and trust that the Government will pursue a policy which will permit us to achieve it.

(The attachments referred to follow:)

THE COSTS AND BENEFITS OF COMPETITIVE ONE-PRICE COTTON

(By M. K. Horne, Jr., Chief Economist, National Cotton Council of America,
June 9, 1965)

Under the Agricultural Act which became law on April 11, 1964, cotton is now made available for domestic mill consumption and for the export market at the same price. This was accomplished by reducing the price for domestic consumption by approximately 9 cents per pound.

The net increase in cost

In order to measure the net cost of this action to the Federal Government, we must take three changes into account:

1. An export subsidy of about 9 cents per pound was already in effect when the act passed.¹ Under the act, this subsidy was reduced to 6½ cents a pound as of August 1, 1964.

2. A subsidy of 6½ cents a pound on cotton for domestic consumption became effective with passage of the act. After August 1, this became the amount of the subsidy for both the domestic and the export markets.

3. The support price to the cottongrower was reduced about 2½ cents per pound for the 1964 crop, and the average price received by growers came down about the same amount. The 2½-cent reduction in the farmer's price, combined with the 6½-cent subsidy payment, explains the 9-cent reduction in the cost of cotton to the domestic mills. This reduction in the farmer's price also explains how the export subsidy could be reduced 2½ cents (from 9 to 6½ cents) without necessarily changing the export price.

The simplest way to compute the net cost of these changes to the Federal Government for any given season is by reckoning in terms of the cotton exported or consumed domestically within that season.² For the crop year which will end on July 31, 1965, it appears that domestic mill consumption will total approximately 9.3 million bales and exports (subject to a wide error) approximately 4.2 million bales. The changes outlined above involve a new cost of 6½ cents a pound, or about \$32.50 a bale, on domestic consumption. This means an increase of about \$302 million in the Government's cost. On the other hand, these changes involve a decrease of 2½ cents a pound, or \$12.50 a bale in the subsidy on cotton exported. This means a reduction of about \$52 million in the Government's cost. Subtracting this from \$302 million, we find that the net cost increase for the present crop year is about \$250 million.

The levels of the support price and of the subsidy payments are determined by the Secretary of Agriculture. For the next crop year (1965-66) the Secretary has announced a further reduction of 1 cent per pound in the support price to the grower and (tentatively) a reduction of three-fourths of 1 cent per pound in the subsidy payments. Since this will tend to lower the farmer's price one-fourth cent more than the payments are reduced, it will tend to lower the price of cotton for the domestic and export markets by the difference of one-fourth cent. Obviously it will also lower the cost of the program to the Government by three-fourths of 1 cent per pound or about \$3.75 per bale. The exact saving to the Government will depend on the amount of cotton marketed. If this should be the same as the amount estimated above for the 1964-65 season, or 13.5 million bales, the net cost would be reduced about \$50 million, or to \$200 million.

¹ Although the payment-in-kind on exports in 1963-64 was 8½ cents per pound, nearly all the cotton actually exported was under a special sales program making it available at a price approximately 9 cents less than the domestic price.

² The payments take the form of certificates representing claims on cotton held in Commodity Credit Corporation stocks. Under regulations issued by the U.S. Department of Agriculture, the payments may be made at various stages of marketing. At present they are made to the first handler, other than the producer, who elects to assume an obligation for the cotton to be consumed domestically or exported before expiration of the act on July 31, 1966 (or to the spinner if no previous handler has collected the payment). Thus actual payments can be made in one season for cotton consumed or exported in a later season. It would appear, however, that the true cost relates to the time when consumption or exportation occurs.

There is, however, an urgent need to expand total marketings above this level, and we shall not attempt here to forecast the total for the season ahead. We shall accept \$250 million, as computed above for 1964-65, as the net cost of the actions taken under the act of 1964 to lower the domestic price approximately 9 cents per pound and thereby equalize the domestic and export prices.

In this analysis we shall neither defend nor criticize the act of 1964 or the way it has been administered, but shall limit our attention to the fact that under this act a one-price system was restored by lowering the domestic price about 9 cents. Since the lower price is generally accepted as a reasonably competitive price on the domestic market, we shall refer to the new price structure as competitive one-price cotton. This is partly a misnomer, since the export price is not necessarily competitive; but the term is correct from the standpoint of the domestic market.

This analysis deals with only one question: Is the cost of competitive one-price cotton justified by the benefits? We shall consider the interests of all the American people as taxpayers, consumers, and income earners.

Exports

There is nothing in competitive one-price cotton, as we have it under the act of 1964, which could have been expected to benefit the export market, except removal of the violent opposition which was building up against the export subsidy under the former two-price system. During the season of 1963-64 the export market was not a subject of widespread concern, because foreign textile demand was rising and foreign crops were relatively poor, so that the volume of U.S. exports was improved. These circumstances have now taken a turn for the worse, and it has become apparent to everyone that the export problem is critical. This problem, however, is outside the scope of the present paper, which is limited to the effects of competitive one-price cotton on the domestic market.

The domestic market

The effects of this action are to be found in the domestic economy, where the net price of cotton to the spinning mills was reduced about 9 cents a pound.

Since this reduction took place, many changes have occurred in textile profits, prices, employment, investment, and so on. The reduction in the price of cotton has been one factor influencing these changes. There have been various others, of which the most important has been an unusually strong upward surge in the retail demand for textile products.

The rise in retail demand, if taken by itself, would have caused higher textile prices, higher mill profits, and higher textile imports, among other things.

The lower price of cotton, if taken by itself, would have caused lower textile prices, lower textile imports, and a narrowing of the profit advantage in spinning manmade fibers rather than cotton, among other things.

The difficulty is that both of these forces were at work at the same time, along with various others. They often pulled in opposite directions, and the effects which flowed from one single cause cannot be isolated and studied, as in a laboratory.

In practice, people are tempted to credit competitive one-price cotton with all the good things that have happened in the textile field, or to blame it for all the bad things that have happened, depending upon whether they like or dislike the Agricultural Act of 1964.

We can put more light upon the situation if we analyze it in two entirely different ways. First, instead of selecting either good or bad things that have happened in the textile economy, we can take a broad look at all the main changes which can be measured. We shall call this "a broad view." These changes cannot all be attributed to the act of 1964; but they will give us a clearer overall picture of what has happened, regardless of the cause, and they will expose the fallacy of selecting pieces of the picture to prove a point.

Second, we can try seriously to identify the effects which really did flow from the reduction in the price of cotton to the mills. We shall call this "a sensible view."

I. A BROAD VIEW

We shall consider profits, employment, and wages, consumer prices, and capital investment.

These things can only be measured in terms of textile operations as a whole, since most firms now deal in other fibers as well as cotton. For profits and for employment and wages, we shall compare the annual record of 1964 with that

of the previous year, since the figures were not readily available for making all the needed comparisons on any other basis. It should be remembered, however, that competitive one-price cotton was not in effect throughout all of 1964. The 6½-percent payment became effective on cotton spun on or after April 11, but the manufactured inventories and goods in process held at that time had been made from higher price cotton. The 2½-cent reduction in the farmer's support price applied to the crop which moved to market in the latter part of 1964. With respect to consumer prices and capital investment, we shall use figures for appropriate calendar quarters, converted to annual rates.

Profits

Many business firms are engaged in carrying cotton on its long journey from the raw fiber stage to the retail counter where it meets the consumer. Cotton goes into so many industrial uses that virtually the whole of American industry and trade is involved to some extent; but the groups most heavily involved are the textile mills, the apparel manufacturers, and the retail stores.

We now have the following estimates from the Federal Government as to the net profits, after taxes, of the first two groups in 1964, compared with 1963:

[In millions of dollars]

	1963	1964	Increase	Percentage increase
Textile mill products-----	354	507	153	43.2
Apparel and other finished products-----	189	318	129	68.3

Source: Federal Trade Commission and Securities and Exchange Commission.

As for retail stores, no comparable figures are available from the Government; but it appears reasonable to estimate that the net profits, after taxes, on the retailing of clothing alone, were approximately as follows:

[Dollar amounts in millions]

	1963	1964	Increase	Percentage increase
Apparel retailing-----	\$663	\$838	\$175	26.4

NOTE.—The method of making this estimate is explained:
Total expenditures on clothing and shoes for personal consumption, as reported in the Survey of Current Business, were \$30,700,000,000 in 1963 and \$33,400,000,000 in 1964. The expenditure on shoes was 15.3 percent of the total in 1963, leaving \$26,000,000,000 for clothing alone. By applying this factor for the next year, we estimate expenditures on clothing alone as \$28,300,000,000 in 1964.
The following figures on net sales and after-tax profits were compiled from the reports of 8 department store chains putting heavy emphasis on textiles (Allied, Associated Dry Goods, Federated, Gimbel's, Marshall Field, Mercantile, and Penney):

	1961	1963	1964
Sales (dollars in millions)-----	\$4,992.5	\$5,889.6	\$6,452.6
Profits (dollars in millions)-----	\$161.0	\$191.3	\$242.8
Profit percentage-----	3.22	3.25	3.76

In a study by the Harvard Bureau of Business Research, as reported by the U.S. Department of Agriculture, (the American Textile Industry, Agricultural Economic Report No. 58), it was found that the average after-tax profit in 1961 of 261 firms in department stores with sales of \$1,000,000 or more was 2.53 percent of net sales. Since this was lower than the 3.22 percent shown above for the same year, it would appear that the 8 firms included in the sample operate at somewhat higher than average profits. By assuming that their relative profitability remained the same in subsequent years, we may scale down the rates for the later years by the same ratio (2.53 to 3.22) and estimate average profits at 2.55 percent in 1963 and 2.96 in 1964. Applying these percentages to the above estimates of total retail clothing sales, we arrive at profits of \$663,000,000 in 1963 and \$838,000,000 in 1964. The method has obvious limitations, but appears reasonable for obtaining an approximation.

It should be realized that these figures do not include the profit on retailing household articles other than clothing, such as sheets, towels, rugs, draperies, tablecloths, etc. It is assumed that the profits on these items rose by a comparable percentage.

It is interesting to observe the following published reports of net earnings by some of the larger retail firms.

[Dollar amounts in millions]

	1963	1964	Increase	Percentage increase
Sears, Roebuck	\$261,024	\$304,094	\$43,070	16.5
J. C. Penney	55,292	68,271	12,979	23.5
Federated Department Stores	53,173	64,469	11,296	21.2
May Department Stores	30,433	41,090	10,657	35.0
Montgomery Ward	20,967	21,865	898	4.3
Allied Stores	14,348	17,735	3,387	23.6
Associated Dry Goods	12,549	16,763	4,214	33.6
Gimbel's	10,808	14,900	4,092	37.9
R. H. Macy's	10,438	14,999	4,561	43.7
Marshall Field	9,368	12,441	3,073	32.8
Broadway Hale Stores	7,001	8,216	1,215	17.4
Mercantile Stores	5,370	7,132	1,762	32.8
Arlan's Department Stores	3,033	4,623	1,590	52.4
Lane Bryant, Inc.	2,826	4,152	1,326	46.9
Richman Bros. Co.	2,085	2,645	560	26.9
King's Department Stores	1,721	3,104	1,383	80.4
Zayre, Inc.	1,223	2,967	1,744	142.6
Total	501,659	609,466	107,807	21.5

Source: Wall Street Journal, issues of Mar. 18 through Apr. 20, 1965. In all cases the reports are for the 12 months through January of the year following the one indicated.

Most of these stores handle a large volume of nontextile items, but clothing and homefurnishings make up about 58 percent of the total sales of department stores in the United States and a larger percentage of apparel store sales. The above figures represent only a fraction of total department store profits, a very small percentage of total apparel store profits, and none of the profits from the textiles handled by variety and food chains, etc.

It should be noted that Sears Roebuck and Montgomery Ward, which put greater than average emphasis on nontextile items, experienced two of the smaller percentage profit gains in 1964. For the retail firms listed above, omitting these two, the total gain was 29.1 percent. This indicates that the estimated increase of 26.4 percent in the total profits on apparel retailing is conservative.

Employment and wages

The following figures are limited to "production workers" in the two industrial categories and to "nonsupervisory workers" in the retail group:

	Average number of workers		Average weekly earnings per worker		Annual earnings (millions of dollars)	
	1963	1964	1963	1964	1963	1964
Textile mill products industry	796,400	802,500	\$69.43	\$72.98	\$2,875	\$3,045
Apparel and related products industry	1,139,400	1,163,900	62.45	64.26	3,700	3,889
Department and apparel stores	1,496,200	1,565,400	57.17	59.02	4,448	4,804
Total	3,432,000	3,531,800			11,023	11,738

Source: U.S. Department of Labor. Annual earnings computed from number of workers and weekly earnings per worker.

The total figures for department and apparel store operations give us the best impression available at this time on employment and earnings in the retailing of textile apparel and household articles (although some nontextile merchandise is included, and some types of textile retail outlets are excluded).

Between 1963 and 1964, average employment rose about 6,100 in the textile industry, 24,500 in the apparel industry, and 69,200 in textile retailing. Total increase in jobs—about 100,000.

The average earnings per worker rose substantially through the combined effect of higher hourly wages and more hours of work. Between the 2 years, total wages rose \$170 million in the textile industry, \$189 million in the apparel

industry, and \$356 million in textile retailing. Total wage increase—\$715 million.

Consumer prices

The official index of consumer prices paid for clothing rose by 0.19 percent, or less than one-fifth of 1 percent, between the fourth quarter of 1963 and the fourth quarter of 1964.³

During the fourth quarter of 1964, consumer expenditures on clothing (omitting shoes) were at an annual rate of \$29.1 billion.⁴ If the increase of 0.19 percent in retail clothing prices had not occurred in the preceding 12 months, this figure would have been roughly \$50 million lower. This would have meant a saving of slightly more than 25 cents per capita for the American population in its annual rate of clothing purchases.

The index of consumer prices for textile homefurnishings (sheets, bedspreads, drapery fabric, etc.) rose 0.49 percent between December 1963 and December 1964.⁵ We have no estimate of total consumer expenditures on such items, but they clearly were small in comparison with expenditures on clothing.

Capital investment

In its regular surveys of investment in new plant and equipment, the Government gives no specific data on the apparel industry or on the retail stores handling textile items. It does, however, give such information on the textile mill products industry.

Investment in new textile plant and equipment rose from \$640 million in 1963 to \$760 million in 1964, for a net gain of \$120 million. Between the fourth quarters of 1963 and of 1964, the annual rate rose from \$650 million to \$950 million, for a net gain of \$300 million.

The Government also has reported on the intentions of textile managements to make such investments in 1965. The intention has been indicated to spend \$1,020 million on new textile plant and equipment this year—up \$380 million from 2 years earlier. For the second half of 1965, the indication is for an annual expenditure rate of \$1,100 million—up \$475 million from the same period 2 years earlier.

At least 106 separate companies, including all the leaders, are now taking part in an unprecedented amount of investment in spinning, weaving, knitting, and finishing facilities.⁶

Such investment is recognized as having a special “multiplier” effect upon the general level of income and employment throughout the economy. Much of the new business created is being enjoyed by the textile machinery industry, which increased its sales by \$60 or \$80 million in 1964, according to a recent estimate.⁷ Profits and payrolls have risen sharply as a result, and this industry in its turn is making new capital investments of its own. For example, Draper Corp. spent an estimated \$5 to \$6 million on plant and equipment in 1964 and earmarked an additional \$4.5 million for a new foundry at Hopedale, Mass. West Point Foundry & Machine Co. added 17,000 square feet to its manufacturing area in 1964 and announced a new 25,000-square-foot building to be constructed in 1965.

Published reports show that much of the textile industry’s new investment is going also into air-conditioning equipment, research facilities, and the construction of new factory buildings, warehouses, and offices. All this investment generates further income and employment which is widely distributed over the country.

³ Computed as follows from monthly indexes (based on 1957-59 as 100) published by U.S. Bureau of Labor Statistics:

	1963	1964	Increase
			Percent
October.....	104.2	104.2	-----
November.....	104.3	104.5	-----
December.....	104.2	104.6	-----
Average.....	104.23	104.43	+0.19

⁴ This figure was derived by the method explained in the footnote on p. 653. It compares with an estimated total of \$23,300,000,000 for the entire year of 1964.

⁵ “Consumer Price Indexes for Selected Items and Groups” (U.S. Bureau of Labor Statistics).

⁶ Information compiled from reports on individual projects, published in Textile Bulletin.

⁷ Dana L. Thomas, “Boom in Looms.” Barron’s. Jan. 4, 1965, p. 3 ff.

Conclusion

This broad roundup of events in the domestic textile economy during 1964 seems to indicate that the American people, as taxpayers and as income earners, received benefits far outweighing the net cost of the Government's action establishing competitive one-price cotton and the small increase in the retail price of clothing.

We have noted increases in after-tax profits of \$153 million for the textile industry, \$129 million for the apparel industry, and \$175 million for clothing retailers, or a total of \$457 million. The Federal corporation tax rate for 1964 was 50 percent on all incomes above \$25,000. This suggests that the increase in taxes paid, before this \$457 million was brought down to after-tax income, must have been well in excess of the \$250 million in increased cost incurred by the Government in establishing competitive one-price cotton, plus the increase of some \$50 million in consumer clothing costs. Moreover, we have taken no account of the greatly increased Government revenue from some \$713 million in higher wages paid by textile, apparel manufacturing, and textile retailing firms, or from numerous other types of income generated by the textile economy. Obviously the increased Government revenue, far outweighing the increased Government cost, means that the taxpayer has not been hurt, but has been helped.

On the top of this we must recognize the clear gain to the whole American population from the improved income situation. In this analysis, which could only reach into some of the main segments of the textile economy, we found 100,000 new jobs, more than a billion dollars in increased wages and profits, and nearly half a billion in the increased annual rate of capital investment by textile firms alone. The cost of competitive one-price cotton is certainly dwarfed by the resulting improvement in job security and living standards throughout the country.

II. A SENSIBLE VIEW

It would be unreasonable, however, to claim that the whole situation outlined above was caused by the reduction in the price of cotton to the domestic mills. Furthermore it is just as unreasonable to claim that any particular part of the situation was caused by lower priced cotton unless the claim can be supported by a fair analysis of the economic forces that were at work. In the following pages we shall try to show what relationship did exist between competitive one-price cotton and the main developments of 1964 in the domestic textile economy. The chief use of the facts presented above will be as a statistical base for the appraisal which follows.

The year 1964 was featured by an unusually strong rise in consumer demand for textile products, which in turn was caused by such factors as the tax cut, the booming general economy, the great increase in textile sales promotion, and the rapid movement of "war babies" into the age bracket of heaviest textile consumption. It is most unusual in this country for clothing purchases to run substantially ahead of the general rise in consumer buying, but this is what happened in 1964. While consumer purchases of all goods and services were up 6.5 percent, such purchases of clothing rose by a remarkable 8.8 percent.

If we view the whole picture with reason and good sense, we are bound to acknowledge that this development, and not the price of cotton, was the main cause of the broad expansion in textile employment and wages and of the rise in profits and of the rise in prices. In the following pages we shall look carefully into textile prices, textile profits, fiber competition, imports, and capital investment.

Textile prices

We have noted that between the fourth quarters of 1963 and of 1964 the official index of retail prices for clothing rose by 0.19 percent, or less than one-fifth of 1 percent. The following indexes of consumer prices show how the rise for clothing compared with that for the total purchases made by American consumers :

	4th quarter		Increase, percent
	1963	1964	
Clothing.....	104. 23	104. 43	0. 19
All goods and services.....	107. 40	108. 67	1. 18

Source: Computed from releases of the U.S. Bureau of Labor Statistics, as explained in the footnote 3 at bottom of page 655.

Clothing prices rose less than one-sixth as much as all consumer prices. Was this caused by a weaker demand for clothing than for other consumer items? The answer is found in the following figures for consumer spending, expressed in annual rates :

[Billions of dollars]

	4th quarter		Increase, percent
	1963	1964	
Expenditures for clothing ¹ -----	26. 2	29. 1	11. 1
Total consumer spending-----	381. 3	406. 5	6. 6

¹ Expenditures for clothing computed by subtracting 15.3 percent from expenditures for clothing and shoes. See footnote, page 653.

Thus we see that although clothing purchases rose more rapidly than other purchases, clothing prices rose much less than other prices.

Had this kind of thing been happening in earlier years? We shall look at the record for the previous 12-month period. First the index of consumer prices :

	4th quarter		Increase, percent
	1963	1964	
Clothing-----	103. 10	104. 23	1. 10
All goods and services-----	105. 93	107. 40	1. 39

And here are the corresponding figures on consumer spending in this earlier 12-month period (annual rates in billions of dollars) :

	4th quarter		Increase, percent
	1962	1963	
Expenditures for clothing-----	¹ 25. 4	26. 2	3. 1
Total consumer spending-----	364. 0	381. 3	4. 8

¹ 1962 expenditure for clothing computed by subtracting 15.8 percent from expenditure for clothing and shoes. This was the percentage spent on shoes for all of 1962.

The meaning of these figures sums up as follows : During 1963 the demand for clothing lagged behind the demand for other goods and services, but clothing prices rose substantially. During 1964, however, the situation was sharply reversed. Although the demand for clothing rose much faster than the demand for other goods and services, clothing prices rose very little—only one-sixth as much as the index of all consumer prices.

It is clear that for some reason American consumers did pay less for clothing in 1964 than they might have expected to pay in view of the strong demand. Was that reason the lower price of raw cotton?

Misconceptions sometimes exist as to the amount of impact which a change in the price of cotton could possibly have upon the retail price of cotton articles. A study published recently by the U.S. Department of Agriculture gives the following breakdown of the average consumer dollar spent for cotton apparel and household goods in 1962, according to the portion received at each level of operation.⁸

	Cents
Farm production-----	13. 7
Ginning and baling-----	1. 3
Merchandising cotton-----	2. 2
Manufacturing, dyeing, and finishing yarns and fabrics-----	11. 9
Manufacturing apparel and household goods-----	30. 1
Wholesaling-----	8. 2
Retailing-----	32. 6
Total-----	100. 0

⁸ "The American Textile Industry" (Agricultural Economic Report No. 58).

We see that in 1962 the farmer's portion of the average retail dollar spent on cotton articles was 13.7 percent. It was approximately 15 percent in the first quarter of 1964, according to a later report of the Department of Agriculture.⁹ A 9-cent reduction in the price of cotton was equal to somewhat more than one-fourth of the average price received by farmers. Thus the price reduction was about equal to 4 percent, or slightly less, of the average retail price of cotton articles (one-fourth of 15 percent). If the entire reduction had been passed on to the final consumer, the effect on the clothing price index would have been only a fraction of 4 percent, since other fibers are also used in clothing. The booming demand and the rise in labor costs obviously prevented the entire price reduction from being passed on to the consumer. It is quite conceivable, however, that the lower cotton price could have been responsible for holding down the increase in clothing prices to the very modest figure of 0.19 percent and preventing a rise of considerably more than the 1.10 percent experienced the previous year.

If this is what actually did happen, the evidence would be most apparent at the stage of manufacturing and distribution where the raw fiber plays the biggest part in the selling price. This is in the manufacture of yarn and of unfinished cloth. We would also expect to find the biggest effect in the relatively coarse or heavy products in which the fiber cost is larger in relation to labor and other processing expenses.

The U.S. Department of Agriculture prepares monthly tabulations for 20 constructions of unfinished cotton cloth. For each construction, the mill selling price is given for the amount of cloth which can be manufactured from a pound of raw cotton. In table 1 these figures are presented for four recent dates.

TABLE 1.—Prices of unfinished cotton cloth ¹

Type of fabric	Weight of 1 square yard in ounces)	Prices of the amount of fabric which can be made from 1 pound of raw cotton (in cents)				
		January 1964	March 1964	December 1964 (pre- liminary)	March 1965 (pre- liminary)	Change in price: March 1964 to March 1965
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Print cloth.....	1.74	73.34	73.34	74.73	76.74	+3.40
Do.....	2.39	70.80	70.51	74.54	74.40	+3.89
Do.....	2.70	71.48	70.16	73.27	73.74	+3.58
Do.....	2.80	70.80	70.22	71.76	76.80	+6.58
Carded broadcloth.....	3.06	66.49	65.58	71.33	72.40	+6.82
Print cloth.....	3.11	72.42	71.61	73.19	76.68	+5.07
Sheeting.....	3.35	61.43	63.23	62.48	64.26	+0.94
Print cloth.....	3.69	68.21	68.10	69.47	72.70	+4.60
Carded broadcloth.....	3.70	64.62	64.14	66.50	66.50	+2.36
Sheeting.....	3.84	57.75	58.58	58.18	57.75	-0.83
Do.....	4.74	56.44	56.84	55.44	55.44	-1.40
Twill.....	4.92	62.28	62.28	61.96	61.96	-0.32
Sheeting.....	5.05	56.88	57.98	56.88	56.40	-1.58
Drill.....	5.64	56.25	56.25	54.00	54.00	-2.25
Twill.....	6.51	56.27	56.51	54.50	54.87	-1.64
Osnaburg.....	6.82	45.65	45.65	43.86	43.86	-1.79
Drill.....	7.44	53.94	54.29	53.77	53.63	-0.66
Twill.....	7.61	53.02	53.58	50.43	50.54	-3.04
Army duck.....	8.00	69.29	69.29	68.11	68.45	-0.84
Grade A, S. F. duck.....	8.00	59.07	59.07	57.28	57.28	-1.79
Average.....	4.76	62.32	62.37	62.58	63.42	+1.05

¹ "Cotton Price Statistics" (U.S. Department of Agriculture).

The 20 constructions are listed in the order of the weight of each fabric, with the finest or lightest fabric given first. For the lightest fabric, weighing only 1.74 ounces per square yard, the price of the quantity made from a pound of cotton rose 3.40 cents per pound, or 4.6 percent between March 1964 and March 1965. But for the heaviest fabric, weighing 8 ounces per yard, the price of the quantity made from a pound of cotton dropped 1.79 cents per pound, or 3 percent.

⁹ Marketing and Transportation Situation.

The price fluctuations were naturally affected by supply and demand conditions of the individual constructions, but column 7 shows that all of the 9 lightest fabrics in this list rose in price, while all of the 11 heaviest fabrics declined in price. In other words, in those products involving the lowest percentage of cotton cost and the highest percentage of labor and other costs, prices tended to rise; while in those of the opposite type, prices tended to decline. The smaller the role of cotton in the cost sturcture, the greater the tendency for prices to rise; and the larger the role of cotton, the greater the tendency for prices to fall. Clearly, then, the influence of the lower cotton price was at work and did pull downward on the price of cloth, though it was only in a fraction of the market that this influence was big enough to outweigh the upward pull of booming demand and of higher labor costs.

The average figure at the bottom of table 1, representing all 20 fabrics combined, is misleading if it is taken to reveal the average behavior of cotton cloth prices as a whole. It is too small a sample of fabrics, and the lighter fabrics are automatically given a larger weighting in the averages, since the figures are in terms of a pound of raw cotton used. Even if the sample in table 1 is employed, an average price based on 1 square yard of cloth in each construction shows virtually no change between March 1964 and March 1965.

The Daily News Record, a textile trade publication, publishes prices on a larger number of constructions. Following are the average prices per linear yard of the 77 cotton gray goods fabrics on which figures were published for the dates indicated: ¹⁰

	<i>Cents</i>
Dec. 31, 1963-----	28. 89
July 1, 1964-----	27. 74
Dec. 30, 1964-----	27. 98
Mar. 31, 1965-----	28. 06

From the beginning to the end of 1964, these figures reflect an average price decline from 28.89 cents to 27.98 cents, or nearly 1 cent per yard. This differs from the figures in table 1, indicating a slight percentage increase between January and December 1964. There is no apparent evidence that either these 77 fabrics or the 20 fabrics presented in table 1 represent a scientifically chosen sample for the type of investigation here being made. The 77 fabrics do cover the whole spectrum of the broad goods manufactured in this country, and in the absence of a scientific sample it seems logical to place greater faith in the larger sample.

This larger list of fabrics confirms the evidence in table 1 that net price increases tended to occur in such items as print cloth and other lightweight goods. It confirms even more strongly, however, the tendency of the heavier goods to decline in price. Some heavier items are summarized below (in prices per pound of cloth) :

[In cents]

	Dec. 31, 1963	Dec. 30, 1964	Decline
Sateens (average of 4 constructions)-----	66. 71	62. 00	4. 71
Broken twills (2 constructions)-----	60. 83	57. 59	3. 24
Wide drills (2 constructions)-----	70. 13	67. 90	2. 23
Osnaburgs (2 constructions)-----	64. 65	59. 78	4. 87
Knitted goods (5 constructions)-----	104. 30	95. 70	8. 60

The Daily News Record also reported prices of 41 different constructions of cotton yarn, representing the stage of manufacture which is closest of all to the raw material. The reported average prices per pound were as follows:

	<i>Cents</i>
Dec. 31, 1963-----	81. 41
July 1, 1964-----	76. 79
Dec. 30, 1964-----	76. 50
Mar. 31, 1965-----	76. 55

The evidence is powerful indeed that in those products embodying the largest ratio of cotton cost to total cost, prices did decline very substantially. These were the products in which the real influence of the cotton price could be best observed.

¹⁰ In a few cases the dates varied by a few days from those given.

The Daily News Record also carried prices per yard on 37 different unfinished fabrics made of manmade fibers (either 100 percent or in blends) for substantially the same dates. The averages for these fabrics are shown below, alongside the averages for the 77 cotton items:

[In cents]

	Cotton goods	Manmade fiber goods
Dec. 31, 1963.....	28.89	31.57
July 1, 1964.....	27.74	31.98
Dec. 30, 1964.....	27.98	33.07
Mar. 31, 1965.....	28.06	33.11

During the first 6 months of 1964, the cotton goods declined 1.15 cents, while the manmade goods rose 41 cents. During all of 1964, the cotton goods declined 91 cents, while the manmade goods rose 1.50 cents. During the 15 months ended March 31, 1965, the cotton goods declined 83 cents, while the manmade goods rose 1.54 cents.

Evidently there were reductions in the prices of some manmade fibers during 1964, but not such as to compare in overall effect with the 9-cent reduction in cotton. The prices of the manmade fiber fabrics were dominated by the strong upward pull of the market and by rising costs of textile operations. This obviously is what would have happened also in cotton fabrics in the absence of lower cotton prices. The evidence suggests, however, that cotton fabrics as a whole did not rise but declined in the very face of strong upward pressures, and that the only possible explanation is the lower price of raw cotton.

Government indexes for March 1965.—The foregoing analysis is generally confirmed and in some respects brought more up to date by the use of price indexes published by the U.S. Bureau of Labor Statistics, including indexes of wholesale prices. (Some of these figures were received too late to be incorporated elsewhere in the body of this report.) Indexes based on 1957–59 as 100, showing the 12-month changes from March 1964 to March 1965, are given below :

	March 1964	March 1965	Percentage change
Consumer Price Indexes:			
Apparel (less footwear).....	103.2	103.7	+0.48
All items.....	107.7	109.0	+1.21
Wholesale price indexes:			
Cotton yarns.....	98.6	92.3	–6.39
Broadwoven fabrics:			
Cotton.....	101.4	100.4	–.99
Manmade fiber.....	98.5	101.3	+2.84
Apparel (no separation given according to fiber content).....	102.3	103.1	+.78
Cotton housefurnishings (no comparable figure given for manmade fibers).....	103.4	102.8	–.58

These price indexes, like all others, are subject to imperfections in the sampling and reporting techniques. The greater increase in the wholesale than in the retail indexes of apparel prices is probably explained in part by such imperfections, including differences in the wholesale and retail samples. The figures above nevertheless do tend to document the following general points:

- (a) That the lower price of cotton has been accompanied by a sharp reduction in cotton yarn prices and by some reduction in average cotton cloth prices, whereas cloth prices from manmade fibers have had a very substantial average increase; and—
- (b) That the prices paid by consumers for clothing have had only a relatively small increase as compared with those paid for all goods and services.

While no index of retail prices for homefurnishings is yet available for March 1965, we do find that cotton homefurnishings were lower at the wholesale level than they had been a year earlier.

To sum up on textile prices.—The evidence is powerful indeed that the lower price of cotton did exert a strong downward pull on the price of yarn and fabrics and that in the establishment of retail prices the lower price of cotton served as a strong counterforce to the powerful upward pull of booming demand, of in-

creases in other operating costs, and of higher prices for manmade fiber products. The downward pull exerted by cotton is a plausible explanation, and apparently the only logical explanation, why retail clothing prices rose less than one-fifth of 1 percent in a year when overall consumer prices rose 1.18 percent and when the demand for clothing far outran the demand for other goods and services. Across the 12-month period ended in March 1965, as the other forces continued pulling upward, it appears that lower price cotton was the main reason why apparel prices rose less than one-half of 1 percent, while overall consumer prices rose more than 1.2 percent. Despite all the clamor which has been heard about the failure of lower price cotton to bring down the prices paid by consumers, the cold facts indicate that consumers have received fully as much benefit as could have been reasonably expected.

Textile profits

It has been claimed that the rise in textile mill profits was caused by the adoption of competitive one-price cotton, on the theory that the mills simply added to profits the amount of the cotton price reduction. This theory itself becomes untenable when we examine the actual behavior of textile prices, as outlined above on pages 15-19. In heavier goods, which provide the best indicator of the effect of the cotton price, cloth prices generally declined. Only in lighter goods, in which booming demand and rising labor costs were relatively strong factors as compared with the cotton price, did cloth prices generally rise.

Referring back to the figures on pages 5 and 6, we must ask:

- (1) If lower cotton prices caused the rise of 43.2 percent in textile mill profits, what caused the rise of 68.3 percent in the profits of apparel manufacturers?
- (2) And what caused the rise of 26.4 percent in the profits on retailing of apparel?

It is well known that the textile companies making the greatest use of man-made fibers and the least use of cotton experienced fully as much profit increase as those relying largely or entirely on cotton. So we must ask: What caused this?

The main answer in all cases is that all these establishments, particularly the textile mills, are well recognized as the types of businesses which go through wide up-and-down swings of profits in response to the strength or weakness of demand. When business is weak, their profits drop more than average; when it is strong, they rise more than average. And 1964 was a year of extraordinary strength in the demand for textiles.

Some light can be gleaned from the Government's estimates of profits, before income taxes, in the textile industry. The figures are given below by calendar quarters in millions of dollars:

Quarter	1961	1962	1963	1964	Increase, 1964 over 1963
					Percent
I.....	100	160	146	178	21.9
II.....	133	183	181	206	13.8
III.....	165	179	190	282	48.4
IV.....	191	202	204	281	37.7

Source: Federal Trade Commission and Securities and Exchange Commission.

This 4-year record makes it evident that textile profits have a marked seasonal pattern, for which any valid comparison must allow.

If we are looking for the effect of the cotton price reduction, we must recognize the following facts: No such reduction had occurred during the first quarter of 1964. The payment lowering the net price to the mills by 6½ cents per pound became effective on cotton spun on and after April 11. The further reduction of 2½ cents took the form of a lower price received by farmers on the 1964 crop, which could hardly have been available for use in big volume by the mills much before the beginning of the fourth quarter on October 1. Moreover, both on April 11 and at the beginning of the new crop movement, the mills necessarily had stocks of unsold cloth on hand or in the process of manufacture, made from cotton purchased at the higher prices prevailing earlier. Therefore the notion that lower cotton prices were the principal cause of the higher profits runs into conflict with certain hard facts:

First, the year-to-year rise in profits was quite in evidence during the first quarter of 1964, before any of the benefit of the lower cotton price was available. In fact the rise in profits was higher in the first than in the second quarter, when such benefits began to be felt for the first time.

Second, in the fourth quarter, which was the first time that the full benefit of the 9-cent reduction could have been available, the year-to-year gain was less than in the third quarter.

While rising demand was clearly the foremost cause of the increase in textile mill profits, we should recognize that other contributive factors must also have been at work.

One such factor must have been some relief from Federal income taxes. The special tax credit for investments in new plant and equipment apparently had more than the average effect upon textile mill profits, since this industry increased such investments to an exceptional extent in 1964. This was in addition to the general reduction in corporation income taxes. The official estimate of textile mill profits before Federal income taxes, rose from \$721 to \$947 million, or only 31 percent. A substantial amount of tax relief was therefore necessary to provide the estimated increase from \$354 to \$507 million, or 43 percent, in after-tax income.¹¹

It must also be recognized that competitive one-price cotton should have had, and in all probability did have, a favorable effect upon textile profits. Previously, under the two-price system, this country had been exporting cotton some 9 cents a pound cheaper than the prices available to American mills. Textiles manufactured abroad from cheaper cotton and exported to this country had naturally depressed domestic prices and imposed an unreasonable profit squeeze on American mills. This had not only encouraged imports but had also increased the incentive for mills to abandon cotton and take up the use of man-made fibers. The prime purpose of competitive one-price cotton was to check this damage to the domestic cotton market by putting the users of cotton back on a fair competitive basis as compared with the users of manmade fibers and with the foreign textile manufacturers. Where textile prices dropped steeply (for example in yarns), the mills were at least able to compete more effectively with imported goods and thus to hold more market than they would otherwise have held. Where temporary strength in the market caused firm textile prices (for example, in a number of finer fabrics) the lower cotton price at least put the industrial cotton consumer on a fair profit basis compared with manmade fibers consumers and with foreign cotton manufacturers insofar as his raw material price was concerned.

To sum up on the increased profits of textile mills: The boom in retail demand was the main cause. Tax relief was another significant cause. And the lower price of cotton was another. Whatever improvement actually resulted from competitive, one-price cotton was thoroughly justified, since it represented nothing more than the removal of an unfair competitive handicap, which had to be eliminated if the domestic market for cotton was to survive.

Fiber competition

A basic purpose of competitive one-price cotton was to check cotton's losses to other fibers in the domestic manufacture of textiles. The competitive record leading up to this legislation, and the brief period of experience following its enactment, are summarized below. The figures represent annual fiber consumption on the cotton spinning system. The rayon and noncellulosic fibers are converted to equivalent bales of cotton.

Year	Total consumption in bales or bale equivalents	Percentage of consumption		
		Cotton	Rayon	Non-cellulosics
1958	9,102,000	88.24	9.48	2.28
1959	10,267,000	88.06	9.22	2.73
1960	9,880,000	88.49	8.48	3.03
1961	9,817,000	87.06	9.44	8.50
1962	10,405,000	84.19	11.05	4.76
1963	10,538,000	80.15	13.11	6.75
1964	11,198,000	79.03	13.41	7.55

Source: Computations based on statistics of U.S. Bureau of the Census, with rayon and noncellulosics converted to cotton equivalent by means of commonly used conversion factors (available on request).

¹¹ Federal Trade Commission and Securities and Exchange Commission.

Here it is evident that cotton was holding its own against its closest competition during the period 1958–60, but that a sharp reversal got underway in 1961 and continued through 1963. Since the reduction in the price of cotton did not begin until April 1964, a comparison of certain calendar quarters is necessary if we are to measure competitive changes in relation to this action. The following quarterly figures are in annual rates.

	Total consumption in bales or bale equivalents	Percentage of consumption		
		Cotton	Rayon	Non-cellulosics
1961 (1st quarter).....	9,167,000	88.10	8.64	3.27
1964 (1st quarter).....	10,860,000	78.96	13.80	7.24
1965 (1st quarter).....	11,884,000	78.92	12.60	8.48

Between the first quarters of 1961 and of 1964, total consumption on the cotton system rose by the equivalent of 1,693,000 bales, but cotton consumption rose only from a rate of 8,076,000 to 8,576,000, or by 500,000 bales. If it had held the same percentage of the market throughout this period, its consumption would have risen to a rate of 9,568,000 bales by the first quarter of 1964, or 992,000 more than the rate it actually reached. Therefore, it experienced a competitive loss of nearly a million bales across those 3 years on the cotton system alone.

The dominant cause of this competitive loss was a sharp change in the price relationship of cotton and rayon staple fiber. The price of rayon was lowered 5 cents a pound in 1960 and 1961. The market price of cotton was raised by an average of 3½ cents or more in 1961. The result gave rayon an overwhelming advantage, and it swept into cotton's markets. The higher cotton price, combined with many reductions in noncellulosic prices, contributed also to an acceleration in the competitive gains of these fibers.

In turn the sharp reduction in the price of cotton to domestic mills during 1964, brought a check to cotton's net competitive losses. The effect was felt mainly in the competition with rayon, which depends heavily upon price relationships. Rayon's share of the cotton system market fell back from 13.80 to 12.60 percent. The noncellulosic fiber competition, which is governed less by price and more by sales promotion, was affected relatively little. These fibers scored a further gain from 7.24 to 8.48 percent. On balance, however, cotton succeeded in holding substantially the same percentage of the market between the first quarters of 1964 and of 1965. This clearly was caused primarily by the lower price.

Since total consumption on the cotton system was rising between early 1964 and early 1965, cotton consumption rose in annual rate by 804,000 bales.

Between the first quarters of 1961 and of 1964 cotton's share of the fiber used in its own spinning system fell from 88.10 to 78.96 percent, or about 3 percentage points per year. As a percentage of the present market this would amount to 360,000 bales per year. There is little basis to doubt that if the price had not been lowered, cotton's competitive losses would not only have continued but would have accelerated further. Textile firms do not ordinarily shift from one fiber to another without spending a great deal of time, effort, and money upon research and experimentation, designing, market analysis, and sales promotion. All these efforts were set in motion on a big scale by the adverse price developments of 1960–61. It is clear from the above figures that cotton's competitive losses began at a relatively modest rate and accelerated as the years passed. The loss amounted to 1.43 percentage points in 1961; 2.87 in 1962; and 4.04 in 1963. By the first of 1964 it was well known that great preparations had been made for bigger shifts into manmade fibers and faster abandonment of cotton. There was, however, a growing expectation that legislation would be adopted to lower the price of this fiber, and this served as a restraining force. If the price of cotton had not been lowered to a competitive level, cotton evidently would have seen losses even steeper than anything experienced down to that time.

The reduction in the price did not remove all of cotton's serious competitive problems. Price is not the only competitive factor; but this one factor by itself was rapidly destroying the domestic market, and the price reduction did check this catastrophe and offer cotton a new lease on life and a new chance to compete.

Imports

The cotton content of the textile products imported into the United States in a recent period of years is given below in thousands of bales, with a breakdown of the total according to three major stages of manufacture:

	Yarn and thread	Cloth	End products	Total
1957-----	0.9	68.1	130.1	199.1
1958-----	2.5	77.8	153.5	233.8
1959-----	3.7	138.6	218.0	360.3
1960-----	36.2	265.1	224.2	525.5
1961-----	33.4	168.6	191.6	393.5
1962-----	68.4	302.2	274.7	645.5
1963-----	55.4	309.1	269.5	634.0
1964-----	39.2	285.8	300.5	625.6

Source: U.S. Department of Agriculture.

A big objective of the 1964 cotton legislation was to eliminate the two-price system, under which cotton had been exported across all the years listed above at prices generally from 6 to 9 cents a pound lower than the prices available to domestic mills. While this much difference in the price of cotton is a small factor in the cost of textile products at the retail counter, it is the major item in the cost of manufacturing yarn or cloth. The breakdown of the consumer clothing dollar, given on page 14, puts the matter in perspective. Of the average dollar spent at retail for cotton clothing and household articles, the cost of cotton delivered to the textile mill represented 17.2 cents. The various textile manufacturing processes added 11.9 cents, so that the value of the finished cloth represented 29.1 cents of the average retail dollar. Thus it appears that the cost of raw mtaerial absorbed on average about 59 percent (17.2/29.1) of all textile mill revenue from the sale of cotton products. In contrast, the aftertax profits of the textile industry during the 8 years given above averaged only 2.4 percent of sales. Thus the differential in the raw cotton prices available to domestic and export customers provided an enormous profit advantage to the foreign manufacturer, who could buy his cotton on the world market and ship his goods to the U.S. market in competition with American manufacturers who could only buy their cotton at the higher domestic price.

The figures above show the swift advance of imports from 1957 to 1960. During 1961 the first international arrangement allowing some use of import quotas went into effect. In October 1962 a 5-year arrangement of this nature (referred to as the Geneva agreement) became effective, and the results are apparent in the relatively stable level of imports after 1962.

The great importance of the return to one-price cotton tends to be obscured by this development, but it is essentially this: (1) The Geneva agreement is vital to the future of the U.S. cotton and cotton textile economy, and (2) one-price cotton is vital to the future of the Geneva agreement. The present arrangement expires in 1967, and great concern has been expressed as to whether a number of the exporting nations will agree to renew it. The fervor of their special interest in invading more of the U.S. textile market must spring from the abnormal profits which have been available to them under the two-price cotton system. By removing the two-price system, we have removed the source of the abnormal profits, and continuance of the Geneva agreement can be discussed in an atmosphere of relatively sane and normal cost relationships.

Even with the agreement in force, the volume of textile imports is subject to some movement up or down for a variety of reasons. The reasons include seasonal influences, strength or weakness in domestic demand, a tendency for some imports to escape the quotas, and a provision for a 5-percent annual increase in the quotas. The return to one-price cotton can also be expected to exert an influence, since the lower domestic price removes a great competitive disadvantage of domestic against foreign manufacturers. Insofar as this action results in lower product prices, it tends to restrain import competition. In the period since April 1964, however, the domestic textile market has been very strong—so strong in fact that mill capacity could not immediately supply the demand in many types of fabric. This temporary situation inevitably tended to encourage imports.

Monthly import figures for the 12 months beginning with April 1964 are presented below in comparison with those for the preceding 12-month period. Again these are expressed in thousands of bales of cotton content.

[In thousands of bales of cotton content]

April-March period	Yarn and thread	Cloth	End products	Total
1963-64-----	60.3	284.2	264.3	608.8
1964-65-----	30.1	306.2	314.1	650.4

Source: U.S. Department of Agriculture.

Of these three product categories, the only one which unquestionably has already experienced a large, overall reduction in prices, despite strong demand, is the one in which the price of cotton plays the greatest part—namely the yarn. Accordingly we find the result which might have been expected: Imports have been forced back by approximately 50 percent. In clothing and other end products, in which the cost of raw cotton is a relatively small cost component, imports rose further by 19 percent. The cloth is in a middle position, and we find, not at all surprisingly, that in this period of very strong domestic demand, there was a further increase of 8 percent.

A closely related subject is the importation of rayon staple fiber. The big expansion of rayon consumption was supplied in considerable part by imports, as the following figures show. The figures are in terms of cotton bale equivalents and are by calendar quarters.

Years and quarters	Rayon consumption on cotton spinning system ¹	Rayon staple imports ²	Years and quarters	Rayon consumption on cotton spinning system ¹	Rayon staple imports ²
1961: I-----	198,756	18,660	1963: I-----	329,133	48,034
II-----	224,439	13,313	II-----	342,209	61,540
III-----	237,913	15,791	III-----	336,536	69,060
IV-----	262,520	37,368	IV-----	365,030	88,812
1962: I-----	277,825	35,795	1964: I-----	377,090	92,398
II-----	279,191	22,989	II-----	379,835	68,044
III-----	274,253	28,028	III-----	362,961	45,152
IV-----	313,717	29,529	IV-----	³ 399,756	54,795
			1965: I-----	378,163	44,706

¹ Converted to bale equivalents from statistics of U.S. Bureau of the Census.
² Converted to bale equivalents from statistics of Textile Economics Bureau.
³ The figure for 4th quarter of 1964 is inflated by inclusion of 14 weeks in reporting period, whereas all other quarters cover only 13 weeks.

By the first quarter of 1964, these imports had reached 92,398 cotton bale equivalents, or an annual rate of about 370,000. The value of these imports at such a rate would have been about \$35 million a year (figured in the countries of origin prior to addition of tariff and transportation costs). The rise in imports clearly was caused by the surging demand, which in turn was caused very largely by rayon's gains against cotton under prevailing price relationships. The lower cotton price after the first quarter of 1964 brought a leveling off in rayon consumption on the cotton system and a precipitate decline in rayon staple imports.

Capital investment

The recent decisions of textile executives to expand their capital investment take on more meaning if we consider the figures across a period of years and if we place them alongside similar figures for American industry as a whole. The following are expenditures upon new plant and equipment in millions of dollars :

	All manu- facturing industries	Textile mill products industry
1956.....	14,954	465
1957.....	15,959	408
1958.....	11,433	288
1959.....	12,067	412
1960.....	14,480	530
1961.....	13,680	500
1962.....	14,680	610
1963.....	15,690	640
1964.....	18,580	760
Seasonally adjusted annual rates by quarters		
1964: I.....	17,400	600
II.....	17,800	650
III.....	18,850	800
IV.....	20,150	950
Projections		
1965: I.....	20,950	950
II.....	21,300	1,000
III and IV.....	21,850	1,100

Source: U.S. Department of Commerce and Securities and Exchange Commission.

Across the whole period shown here, textile investments were in a stronger upward trend than those of industry as a whole. This trend reflects the rapid development of improved machinery, among other factors. Nevertheless the sudden burst of new capital investment in textiles since early 1964 is exceptional by any standard. From the first quarter of 1964 to the last half of 1965, the annual rate is projected to rise by 83 percent in textiles, compared with 26 percent for all manufacturing industry. For textiles the net increase will be nearly three times as great in this brief recent period as in all the preceding years shown here.

To a certain extent an increase in capital spending comes almost inevitably with an increase in profits, but the exceptional surge of textile investment since early 1964 reflects a great deal more than this. So long as the two-price system imposed its great competitive burden upon the domestic industry, the whole future of the industry was overshadowed and uncertain. Any one familiar with the viewpoint of textile executives will testify that this is true. The removal of this burden brought a change of attitude which looks far beyond the present short-term period of profits based on booming demand. While the future of cotton legislation remains in doubt, it seems purely factual to report that mill executives now generally feel that a return of the two-price system is unthinkable and will not come about. Therefore they have begun investing for the future in a way that had not been possible for many years before. A large part of the rise in mill investment seems to be a direct result of the return to one-price cotton.

On the subject of plant and equipment, it would also be appropriate to inquire what has happened to investment decisions in other industries which might have been affected by the sharp reduction in the domestic cotton price. As for the man-made fiber industry, Textile Organon reports a planned expansion of 947 million pounds, or 26 percent, in annual production capacity between November 1964 and November 1966.¹² As we have noted, the lower cotton price

¹² Issue of December 1964.

did not prevent the man-made fibers (rayon and the noncellulosics combined) from holding their same relative share of the market, even on the cotton spinning system. It merely checked their rapid gains against cotton, and gave cotton a new chance to compete.

The producer of cotton has experienced a reduction of some 2½ cents, or roughly 8 percent, in his support price, and has already received news of a further 1 cent reduction for the season ahead. Inevitably this means a sharp reduction in his net income and spending power. His hope for the future depends on a whole range of questions: The speed with which his costs can be brought down with new technology; the success of his efforts to get rapid and effective expansions in research and sales promotion; the solution of his export problem; the nature of future Government policy as it affects his acreage, his selling price, his labor costs, and so on. Competitive one-price cotton did bring at least a temporary solution to one of his most pressing problems; namely, his rapid competitive losses on the domestic market.

On balance the new events of 1964 did not seem to check the determination of efficient cotton producers to go forward with big programs of capital investments. For the period since April 11, 1964, the figures already available are quite limited, but they tend to support this conclusion. We have figures on the investment in land leveling in three areas highly dependent upon cotton; namely, the States of Mississippi and Arkansas, and 11 counties in the High Plains of Texas. Total investment rose from \$1,982,000 in 1963 to \$2,336,000 in 1964, or 18 percent. A survey reveals that sales of cotton-picking machines in the Midsouth area rose 25.8 percent between the 2 years. The number of farm wheel tractors sold at retail in the 14 main cotton-growing States rose from 1963 to 1964 by 3.3 percent, which was slightly more than the percentage gain in the country as a whole. Dollar sales undoubtedly rose faster than this because of the trend to tractors of greater horsepower size.

CONCLUSION

When we try to appraise the forces which have been at work in our domestic textile economy during recent months, and to distinguish in a sensible way the results which really seem to have flowed from competitive one-price cotton, the following conclusions seem reasonable:

(1) The American consumer has benefited substantially, and the amount of benefit seems quite reasonable in relation to the small part which raw cotton plays in the cost of most textile items on the retail counter. Retail prices for clothing rose only one-fifth of 1 percent between the fourth quarters of 1963 and of 1964. This was a year of extraordinary strength in the demand for clothing, when clothing prices might well have risen more, not less, than the 1.2 percent average increase in consumer prices as a whole. Despite the powerful demand (and despite many claims to the contrary) the weight of the evidence indicates that the average price of cotton cloth did not rise, but actually declined. It seems reasonable to conclude that the restraining effect of lower priced cotton upon the natural tendency of cloth prices to rise in such a period, was the main reason why average clothing prices remained almost unchanged * * *. From March 1964 to March 1965, Government price indexes show that all items purchased by consumers rose more than 1.2 percent, while clothing (made from all fibers) rose less than 0.5 percent. Wholesale price indexes for the same period show homefurnishings (reported separately for cotton) down more than 0.5 percent, cotton cloth down about 1.0 percent, and cotton yarn down more than 6.0 percent. In contrast, man-made fiber cloth was up over 2.8 percent. Throughout this analysis, the downward pull of cotton upon textile prices has been apparent, with the effect showing up most clearly where the fiber cost is greatest in comparison with other costs * * *. In addition, the consumer benefits greatly from the fact that the lower price has restored cotton to a position in which it has a chance to remain in contention for the consumer's business. The competitive struggle between cotton and man-made fibers is bound to mean better values for the consumer.

(2) The rise in textile mill profits was caused mainly by the booming retail demand for textile products. Retailers and apparel manufacturers shared quite handsomely in the same good fortune, and in fact the latter group had a bigger percentage profit gain than the textile industry. To some extent, however, the lower price of cotton must have contributed to the improved textile profits, since it restored American cotton to a competitive price relationship against man-made fibers and against the cotton contained in textile imports.

(3) The lower domestic price did check cotton's rapid competitive losses on the home market and did remove the demoralizing effect of imported textiles manufactured abroad from cotton purchased under the former two-price system. In the domestic spinning industry the rapid substitution of man-made fibers for cotton, which was threatening to destroy the American cotton economy, has been brought under reasonable restraint. Noncellulosic fibers continue to gain on cotton, but the gains of rayon have been stopped and reversed. On balance, cotton has begun holding its share of the market competitively for the first time since 1960. This is the main achievement which might logically have been expected from competitive one-price cotton.

(4) Before the decision was made to restore competitive one-price cotton, the rapid competitive losses to other fibers made it extremely apparent that there were no choices available for the U.S. cotton economy except (1) destruction or (2) a radical price reduction. Until a decision was made, the whole cotton and textile economy was in a state of acute uncertainty about the future. When the second of the two alternatives was adopted, cotton's domestic market received a new lease on life and the textile industry responded with a remarkable burst of new investment in plant and equipment. The health of the whole U.S. economy was benefited by the resulting investment, employment, incomes, and improved confidence in the future.

(5) One-price cotton is making an important contribution toward the solution of the balance-of-payments problem. An adverse development of vital importance is the decline in raw cotton exports. This must be corrected not only because of the effect on the payments balance, but because it is basic to the survival of the whole cotton economy. It must be remembered, however, that this subject is outside the scope of the present study, since competitive one-price cotton has not caused the loss in exports (see p. 3). It has caused the total imports of cotton textiles to be less than they would otherwise have been, and more fundamentally, it has removed an insuperable obstacle to renewal of the Geneva Agreement on reasonable terms. It has caused imports of rayon staple fiber to fall sharply below what they otherwise would have been. And it has been a major cause of the great advance in the textile industry's capital investment. In a period when the balance of payments was strained toward the breaking point by the rapid outmovement of industrial capital to other countries, the textile industry became the outstanding example of increased investment at home. This not only helped on the short-run problem, but it laid the basis for greater efficiency and thus greater competitive power against foreign textiles in the future.

(6) These genuine results flowing directly from competitive one-price cotton were bound to reach out into every part of the U.S. economy—generating new investment, employment, and income in far more ways than we could enumerate here—raising the real living standards of the people—contributing more tax revenue and reducing the need for other Government spending on the problems of agriculture, of poverty, of depressed areas, and so on. Against a net increase in cost of some \$250 million a year, the benefits of competitive one-price cotton seem large indeed.

NOTE.—The above document has been corrected pursuant to letter, p. 814.)

HOW A MAJOR CUT IN COTTON ACREAGE COULD AFFECT THE AMERICAN AGRICULTURAL ECONOMY

A study by the National Cotton Council, Memphis, Tenn., December 1964

Many questions are being raised as to the kind of agricultural adjustments that would be likely if cotton production should be cut back sharply because of failure to keep cotton competitive in price.

Without a competitive price, it is pointed out, the export market for cotton could be lost and the domestic market greatly reduced, so that the basic national cotton allotment would have to be cut back from 16 million to perhaps 8 million acres within a short period of years.

The council has been asked to provide factual information on what could logically be expected to take place if the resources formerly devoted to 8 million acres of cotton should have to be diverted to other uses.

CONCLUSIONS

Short-term effects

Even though the 8 million former cotton acres are diverted to the next most profitable crops, gross income from this land could be expected to drop by well over 50 percent, even if prices of the other crops did not decline.

Soybean production would be increased by something like 69 million bushels—adding to the danger of oversupply and lower prices.

Feed grain production would likely be increased by close to 5 million tons—thus increasing the already serious problems of oversupply.

Commercial vegetable production would probably be increased by nearly 3 million tons—which could completely demoralize the markets for these products.

Long-term effects

As cotton shrinks in importance, those who once built their operations around this crop would have to develop new farming systems; inevitably, their new emphasis would be on growing more feed—plus conversion of this feed into beef, milk, pork, eggs, and broilers.

Substantially larger supplies of animal products would have a depressing effect on prices throughout the whole livestock economy of the Nation.

The impact on beef would be especially heavy because the Cotton Belt, with low-cost forage to go with its feed grain potential, would have a competitive advantage in cattle production.

BASIC CONSIDERATIONS

Currently, cotton accounts for less than 45 percent of the total crop acreage harvested on most cotton farms. Yet cotton still accounts for roughly four-fifths of the total gross income on these farms, and an even higher share of their net income. If cotton allotments should be cut in half, farmers would face a desperate need for alternative uses for their resources—uses that would be capable of filling as much of the cotton income void as possible.

In considering what would be done with the resources formerly devoted to cotton, it is important to keep the following points in mind:

(1) The 8 million acres of cropland involved are among the most productive in America.

(2) From the standpoint of climate and geography, these acres are adaptable to a broad range of production possibilities.

(3) The management of these acres is among the most alert and progressive in the Nation.

(4) While cotton has always been a regional crop, the major alternatives to it are critically important in other sectors of American agriculture.

(5) The output from 8 million former cotton acres would in many cases be competing in markets that are even now tormented by the problem of oversupply.

SHORT-TERM ADJUSTMENTS

The adjustments that farmers would make to the loss of 8 million acres of cotton would not work themselves out in a year or several years.

Initially, farmers would undoubtedly fall back on those enterprises which seem to offer the prospect of the highest return, with a minimum of farm reorganization and new investment. The attractiveness of alternative enterprises would, of course, vary greatly from one area of the Cotton Belt¹ to another.

Table 1 provides a starting point for considering what adjustments might be made. It shows, for example, the amount of land currently devoted to allotment crops. And it is reasonable to assume that the other allotment crops—tobacco, peanuts, sugar, rice, and wheat²—do not offer any alternative for land taken out of cotton.

Thus the candidates for absorbing the acreage withdrawn from cotton would be those grouped under the heading of "other crops"—soybeans, feed grains, hay for cash sale, and a variety of specialty crops, including vegetables for the fresh market and for processing. Total acreage of these nonallotment crops would be increased by about 15 percent.

¹ Includes the 14 major cotton-producing States identified in table 1.

² It is possible that some nonallotment wheat might find a place on some Cotton Belt farms as an alternative to the regular feed grain crops—if the Government's current short-term wheat program should be continued. However, there is no feasible way to take this into account in this study.

TABLE 1.—Projected cotton acreage reduction in relation to cropland use in the Cotton Belt

State and region	Crop acreage harvested in 1963 (in thousands)			Cotton allotment reduction	
	All crops	Allotment crops ¹	Other crops	Acres with- drawn (in thousands) ²	Ratio to nonallotment crops (percent)
Alabama.....	3, 209	1, 065	2, 144	470	21. 9
Georgia.....	4, 225	1, 257	2, 968	406	13. 7
North Carolina.....	4, 475	1, 260	3, 215	219	6. 8
South Carolina.....	2, 657	698	1, 959	333	17. 0
Southeast.....	14, 566	4, 280	10, 286	1, 428	13. 9
Arkansas.....	5, 755	1, 824	3, 931	664	16. 9
Louisiana.....	2, 487	1, 556	931	279	30. 0
Mississippi.....	4, 480	1, 533	2, 947	766	26. 0
Missouri.....	11, 630	1, 539	10, 091	178	1. 8
Tennessee.....	3, 858	713	3, 145	266	8. 5
Midsouth.....	28, 210	7, 165	21, 045	2, 153	10. 2
Oklahoma.....	7, 901	4, 282	3, 619	372	10. 3
Texas.....	19, 876	8, 923	10, 953	3, 400	31. 0
Southwest.....	27, 777	13, 205	14, 572	3, 772	25. 9
Arizona.....	1, 051	414	637	166	26. 1
California.....	6, 517	1, 665	4, 852	367	7. 6
New Mexico.....	1, 087	397	690	86	12. 5
West.....	8, 655	2, 476	6, 179	619	10. 0
14 States.....	79, 208	27, 126	52, 082	7, 972	15. 3

¹ Cotton, tobacco, peanuts, sugar, rice and wheat.
² Based on a national allotment of 8,000,000 acres, and the assumption that the present small farm reserve is continued. It is recognized that the acreage of cotton harvested each year is somewhat less than the total allotment acres available—due to the failure of some farmers to plant their full allotment and to abandonment of part of the planted acreage prior to harvest. Thus, the adjustment ensuing from a change in the national cotton acreage allotment would actually involve somewhat more or somewhat fewer acres of harvested cropland, depending on how the matter of underplanting and abandonment is dealt with. We have not attempted to make allowances for these factors in this analysis.

Farmers would, of course, turn to those particular crops that seem to offer the highest net returns in the various areas of the belt. Table 2 indicates, for example, that the “next best” field crop alternative in the delta would be soybeans; in the San Joaquin Valley, alfalfa hay; and in still other areas, feed grains. In most cases, as we note in column 7, the alternative field crops would not provide nearly as high a return as had formerly been received from cotton. In addition to field crops, farmers would certainly take a close look at possibilities for growing such specialty crops as vegetables, berries, tree crops, and nursery products.

Specialty crops—a limited opportunity

While there are no major technical obstacles in diverting cotton land to specialty crops, the opportunity here is sharply limited. Specialty enterprises are characterized by: (1) High output per acre; (2) markets which are highly inelastic and susceptible to sharp breaks in price. Consider the fresh vegetable market, for example. The Cotton Belt already accounts for 58 percent of the Nation’s total fresh vegetable acreage. Of the 10.6 million tons produced in 1962, these States supplied 6 million tons—California alone supplied 3.4 million tons. Moreover, we have the fact that this tonnage actually consisted of 27 different vegetable crops and each of these was segmented regionally and seasonally in ways hopefully calculated to synchronize with the amounts the market would take at acceptable prices. The market for these crops is notorious for the price collapses that accompany an oversupply of any particular perishable at any particular time. Vegetables for processing might appear more promising. Certainly there would not be the same problem of matching production with seasonal charac-

teristics of markets. But in the Cotton Belt the average yield of processing vegetables is more than double the yield in other producing States, taken as a group.

Thus we are forced to the conclusion that vegetable production—either for the fresh market or for processing—is not likely to provide a profitable use for much of the land formerly in cotton. Perhaps 5 percent of the acreage withdrawn from cotton would be used for vegetable production. But the most likely effect of this would be the demoralization of markets for vegetable producers who are already in the business, in the Cotton Belt and over the rest of the country.

Soybeans

Soybean production in the United States has approximately doubled since the early 1950's and a significant part of this expansion is accounted for by acreage diverted from cotton in the Midsouth and Southeast. With current price-cost relationships, soybeans clearly represent the best alternative to cotton in the Midsouth, and it seems likely that at least 90 percent of the acreage withdrawn from cotton production would be utilized for this crop in this region.

In the Southeast, soils, the scale of cotton farming operations, and other considerations impose certain restrictions on the potential role of soybeans as an alternative to cotton. However, even here it seems probable that soybeans might replace as much as two-thirds of the acreage withdrawn from cotton.

TABLE 2.—Returns from selected crop alternatives for representative cotton production situations

Area and crop	“Normal” yield		1963 price	Gross return per acre	Operating expense per acre ¹	Return above expense	Cotton price for equivalent return ²
	Cotton	Alternate crop					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	<i>Pounds</i>						<i>Cents</i>
Southern Piedmont.....	354						
Corn..... bushels.....		30.4	\$1.28	\$38.91	\$35.87	\$3.04	23.3
Oats..... do.....		39.5	.82	32.39	24.14	8.25	24.8
Southern Coastal Plains.....	404						
Corn..... bushels.....		36.5	1.26	45.99	34.79	11.20	26.2
Mississippi Delta.....	562						
Corn..... bushels.....		44.1	1.26	52.16	28.87	22.29	17.6
Oats..... do.....		44.7	.79	35.31	22.14	13.17	16.0
Soybeans..... do.....		24.3	2.59	62.94	19.21	43.73	21.5
Black Prairie Texas.....	194						
Corn..... bushels.....		28.8	1.30	37.44	16.48	20.96	28.2
Grain sorghum..... hundredweight.....		19.64	1.82	35.74	18.01	17.73	26.6
High Plains—nonirrigated.....	259						
Grain sorghum..... hundredweight.....		13.64	1.74	23.72	11.78	11.94	14.8
High Plains—irrigated.....	556						
Grain sorghum..... hundredweight.....		33.60	1.74	58.46	21.62	36.84	17.9
San Joaquin Valley.....	1,030						
Corn..... bushels.....		61.9	1.46	90.37	75.46	14.91	16.6
Barley..... do.....		54.4	1.13	61.47	36.45	25.02	17.6
Alfalfa..... tons.....		5.5	30.12	165.66	92.92	72.74	22.2

¹ Expenses exclusive of general farm overhead and charges for the use of land and other capital.
² The price per pound of lint which, with the yield shown in col. (1) would provide a return per acre equal to the return shown in col. (6) for the alternative crops.

Source: U.S. Department of Agriculture, ERS No. FCR-20, “Costs and Returns Commercial Cotton Farms,” May 1964.

Because of cost-price considerations, soybeans have not yet found an acceptable place in the agriculture of the West and Southwest—except for a small volume that only recently reached commercial significance in Texas and Oklahoma.

Hay for cash sale

In most of the United States and in most of the Cotton Belt, virtually all of the hay production is utilized on the farms that produce it. The only major exception to this is found in the irrigated valleys of the West where dairies supplying major metropolitan areas, feed lot operations and extensive range livestock operations provide an extensive cash market for hay. This is mainly

alfalfa because of its preferred position as a roughage feed, and also because it fits particularly well into a crop rotation sequence generally considered necessary for the management of irrigated soils in this region.

Given current cost-price relationships, alfalfa produced for the sales market affords a more attractive return than any other general field crop alternative to cotton in the West. With a cutback in cotton acreage, alfalfa production would be increased considerably.

But there are some practical limits on the potential expansion of alfalfa acreage. An important one is the fact that the water requirement for alfalfa is substantially greater than for cotton. Another is the fact that the market for sales hay is, in the final analysis, tied to the number of roughage-consuming livestock in some reasonable proximity to the farms that produce the hay. And an excessive hay supply would, as experience has shown, likely weaken prices to a level that this crop would become no more profitable than feed grain production. So let's assume that alfalfa would replace about half of the cotton acreage that would be lost in the irrigated West.

Feed grains

The conclusion seems inescapable that the feed grain crops—corn, grain sorghum, barley, and oats—would utilize a substantial part of any acreage diverted from cotton production, for the simple reason that there are no other cash crop alternatives in many parts of the belt. For practical purposes, we can assume that virtually all of the acreage withdrawn from cotton would be utilized for feed grain production except that which we have previously suggested might go into vegetable crops, soybeans, and alfalfa. Obviously, there is a potential here for worsening a feed-livestock situation that already poses great problems for American agriculture.

Summary—Short-term projections

In summary, when we examine what seem to be the best short-run alternatives to cotton, the adjustments in terms of crop acres would be as indicated in table 3.

TABLE 3.—Projected use of acres withdrawn from cotton

[Thousands of acres]

	Commercial vegetables	Soybeans	Alfalfa hay	Feed grains	Total
Southeast.....	71	957	-----	400	1,428
Midsouth.....	108	1,938	-----	107	2,153
Southwest.....	188	117	-----	3,467	3,772
West.....	31	-----	310	278	619
Total, 14 States.....	398	3,012	310	4,252	7,972

Further, it seems reasonable to assume that, because of their greater productivity, the acres diverted from cotton into these crops (except vegetables) would produce yields at least 10 percent higher than yields currently obtained from the average acre devoted to them. The resulting production would, in each case, represent a substantial increase over the volume currently produced in the Cotton Belt, as indicated in table 4.

TABLE 4.—Projected production from former cotton acres

[Figures in thousands]

	Commercial vegetables (tons)	Soybeans (bushels)	Alfalfa hay (tons)	Feed grains (tons)
Current production in the Cotton Belt.....	9,719	195,091	¹ 7,774	27,449
Production expected from acres diverted from cotton.....	2,809	68,628	1,742	4,709
Percent increase.....	29	35	22	17

¹ Production in the 3 western cotton States.

Inevitably, these short-term adjustments we have projected could not be considered very satisfactory from the standpoint of the farmers who are forced to find alternatives to cotton. The reason is simply that these cash crop alternatives would replace only a small part of the income currently realized from cotton. The gross receipts from these best shortrun alternatives—even at last year's prices—would amount to only \$576 million as against the \$1,360 million gross realized from cotton on the same acreage in 1963. This 58-percent reduction in gross income would be accompanied by an even sharper reduction in net income.

So as cotton shrinks in importance—and as it becomes evident that the cotton acreage loss is permanent—it would become apparent to farmers that their short-run adjustments are far from adequate. Faced with a desperate need to compensate as fully as possible for the loss of revenue from cotton, they would be forced to think in terms of the long-run adjustments that would seem to offer them the opportunity to make the highest possible income. And the longrun adjustments would be sharply different from those that have been projected in the short run.

POTENTIAL FEED AND LIVESTOCK PRODUCTION IN THE LONG RUN

To the extent that a satisfactory adjustment can be made, we must conclude that it will entail the development of production systems and the application of technology not now typical of most cotton farming operations. In the long run, the most likely course would involve greatly expanded production of feed crops—coupled with the conversion of that feed into animal products.

The current situation

Taken as a group, the feed grain crops—corn, grain, sorghum, barley and oats—already account for more crop acreage than any other single enterprise in the 14 principal cotton-growing States. The 27.4 million tons of feed grains harvested in these States accounted for almost 18 percent of the total feed grain production in the United States in 1963.

But this aggregate picture pertains to feed grain production on all farms in these States, and only a part of them grow cotton. A breakdown of feed grain production between the farms that grow cotton and those that do not, as shown in table 5, was derived from the last Census of Agriculture.

TABLE 5.—*Feed grain production in the Cotton Belt in 1963*

Region	Farms growing cotton			Other farms		
	Acre (thousands)	Yield (hundred- weight)	Production (thousand tons)	Acre (thousands)	Yield (hundred- weight)	Production (thousand tons)
Southeast.....	2,123	18.9	2,006	3,463	25.8	4,474
Midsouth.....	1,534	20.2	1,548	4,880	30.5	7,437
Southwest.....	5,966	19.5	5,822	2,979	20.1	2,987
West.....	783	30.4	1,189	1,601	24.8	1,986
14 States....	10,406	20.3	10,565	12,923	26.1	16,884

Thus, we note that cotton farms account for about 45 percent of the acreage but only 38 percent of total production of feed grains in the Cotton Belt. This clearly reflects the fact that in many cotton-growing situations, feed grain production is dictated largely by crop rotation systems and other management considerations in which the direct revenue from these crops is of secondary importance. However, if cotton farmers were compelled to turn to these crops for a major portion of their income, it seems certain there would be a swift adjustment in production methods and crop choices, and sharp increases in yields per acre.

Feed grain production efficiency

What kind of feed grain yields could be produced on cotton farms if the best available technology is utilized? The answer for the Southeast and Midsouth is indicated in a series of reports on cooperative research conducted by the

USDA and the State agricultural experiment stations.³ Data from these reports are shown in table 6.

TABLE 6.—*Examples of potential increases in feed grain yields*

	Yields with current technology	Yields with advanced technology	Potential increase
	<i>Bushels</i>	<i>Bushels</i>	<i>Percent</i>
Wiregrass area of Alabama:			
Corn-----	27	50	85
Oats-----	45	65	44
Limestone Valley of Alabama:			
Corn-----	41	65	59
Oats-----	51	70	37
Mississippi Delta (Arkansas, Louisiana, and Mississippi):			
Clay soils:			
Corn-----	23	46	100
Oats-----	40	50	25
Mixed soils:			
Corn-----	35	65	86
Oats-----	50	60	20
Sandy soils:			
Corn-----	46	81	76
Oats-----	50	60	20

Thus, in making projections for the Southeast and Midsouth, it is reasonable to assume that present feed grain acreage on cotton farms would give higher yields—at least as high as the level reported for noncotton farms. Further, it seems reasonable to expect that the acreage diverted from cotton to feed grains would, because of its greater productivity, provide yields 10 percent higher than the average.

On southwestern cotton farms where feed grains currently are grown, they are generally produced in areas where lack of rainfall imposes sharp restrictions on yields. Irrigation could sharply increase yields—but water is limited.

As things now stand, cotton unquestionably receives preferential treatment over feed crops in the allocation of water. Given a sharp reduction in the cotton allotment, however, both land and water would be released to feed grains. Overall, the effect would be to increase the average yield of the region by an estimated 15 percent.

In the West about three-fourths of the feed grain acreage currently grown on cotton farms is accounted for by barley, even though this crop yields about one-third less grain per acre than milo and corn. This cropping pattern is dictated largely by the fact that milo and corn compete directly with cotton for available water supplies and labor, whereas barley is grown in the winter months and is harvested before the peak demands of the summer crops. If cotton acreage is substantially reduced and the competition for water during the summer months is correspondingly diminished, milo or corn would be substituted extensively for barley. Probably all of the acreage diverted from cotton into feed grains would be planted to milo or corn. The substitution of milo or corn for half of the barley acreage in 1963 would have raised the average grain yield for cotton farms in this region to an estimated 35.2 hundredweight per acre—or about 15 percent. The expected yield from cotton acreage diverted to grain would be about two tons per acre.

Total grain production potential

If we assume the increased feed grain production efficiency described above—and if we also assume that 90 percent of the acreage withdrawn from cotton would ultimately go into feed grain crops—the total projection would then be as shown in table 7.

³ Projects contributing to southern regional farm management research project S-42 and carried out cooperatively between the several experiment stations and the Farm Production Economics Research Division, ERS, USDA.

TABLE 7.—Total feed grain potential on cotton farms
[In thousands]

Region	Projected acreage			Projected production (tons)		
	1963 acreage	Diverted cotton acres	Total	From 1963 acreage	From diverted cotton acres	Total
Southeast.....	2, 123	1, 285	3, 408	2, 739	1, 825	4, 564
Midsouth.....	1, 534	1, 938	3, 472	2, 239	3, 256	5, 495
Southwest.....	5, 966	3, 395	9, 361	6, 683	3, 802	10, 485
West.....	783	557	1, 340	1, 378	1, 114	2, 492
Total.....	10, 406	7, 175	17, 581	13, 039	9, 997	23, 036

The total production of 23 million tons would be more than double the estimated 10.6 million tons actually produced on cotton farms in 1963, with the technology then in use. Acreage diverted from cotton into feed grain production would account for almost 80 percent of the increase. Added efficiency on the existing feed grain acreage would account for the remainder.

The animal product equivalent

As we saw earlier, the production of feed grains for the cash market falls considerably short of filling the income void that would result from the loss of cotton acreage. Thus it is logical to assume that cotton farmers would turn to commercial livestock enterprises in the expectation of realizing an additional margin from the conversion of feed into animal products.

Table 8 indicates the relative gross values to be derived from converting grain into the five different animal products that cotton farmers would be likely to turn toward.

TABLE 8.—Gross returns from converting grain into various animal products

Class of livestock	Output per ton of grain fed ¹	Value of output in 1963
Hogs (pounds of pork) (live weight).....	319	\$47. 53
Cattle and calves (pounds of beef) (live weight).....	185	36. 82
Milk cows (hundredweight of milk).....	17. 4	71. 34
Broilers (pounds of meat) (live weight).....	638	92. 51
Hens and pullets (dozen eggs).....	305	104. 92

¹ Based on average quantities of feed consumed by different classes of livestock as reported by the Economic Research Service, USDA (see statistical bulletin No. 233, table 12). For purposes of the above conversion, the feeding value of a ton of "average grain" is assumed to be 95 percent that of corn.

Grain converted into eggs at the rate of 305 dozen per ton would yield the highest gross return per ton of grain. In declining order from eggs are broilers, milk, pork, and beef. But these comparisons are quite limited in pointing toward the livestock alternatives that might actually be selected.

If the projected 23 million tons of feed grains should be heavily concentrated in turning out any single 1 of the higher gross animal products, it could have a shattering effect on the markets for that product throughout the country.

For example, if this amount of grain went solely into turning out eggs, it could increase total U.S. supplies by 133 percent. If it went into broilers, supplies could go up 200 percent. Total milk production could be pushed up 32 percent; pork production by 35 percent. The potential increase in total cattle production is lowest at 14 percent.

Obviously, the 23 million tons of feed grain would not be concentrated wholly on any 1 product. But the above percentages do suggest the drastic consequences for American agriculture if cotton farmers should move very far toward those feeding enterprises which, at current prices and average conversion rates, yield the highest gross margins per ton of feed—eggs, broilers, milk, and pork.

For projection purposes, however, let's assume that as much as one-third of the projected grain production might be utilized as depressed—but still acceptable—rates of return in these higher margin livestock products.

Could the balance, almost 15.4 million tons, be profitably utilized in beef production—the enterprise which appears to afford the least attractive gross margin at average conversion rates?

Low-cost roughage

Clearly, an affirmative answer depends upon the development and substitution of low-cost roughage—hay, ensilage and pasture—in the place of a substantial part of the feed grain potential we have projected. It seems apparent that farmers would move in this direction, for the Cotton Belt has distinct advantages over other areas of the country in roughage production.

Moreover, the net additional feeding potential of the Cotton Belt would be increased—not decreased—by a proper emphasis on roughage production.

On a per-pound-of-dry-matter basis, the feeding value of roughage is about two-thirds that of grain. But this is offset by the fact that yields per acre of roughage are generally higher.

Then, too, the Cotton Belt, because of its long growing season and its mild winters, has a decided advantage over most other regions for producing low-cost forage in the form of pastures. In many cotton farming situations at present, there are extensive acreages of land which—because of topography, inadequate drainage, and various other technical and economic factors—are now largely unproductive. But these acres could become highly productive in pasture grasses under intensive management.

Moreover, there are extensive possibilities for producing temporary pastures through “double cropping” systems, and the grazing of residues left from harvested crops would become a significant additional source of forage.

Total feed-beef projections

When we add all these potentials together, it is conservative to estimate that the total amount of feed available for beef production would be equivalent to 20.5 million tons of feed grains.

In turn, this amount of feed, at average conversion rates, could produce 3,788 million pounds of beef (live weight)—a quantity equal to about 12½ percent of the total U.S. beef production in 1963.

Potential impact on cattle markets

The potential increase in beef production resulting from a major cutback in cotton acreage would certainly have an impact—perhaps a very substantial impact—on the U.S. cattle economy.

Beef production has been trending upward by nearly 4 percent per year, and this increase has been easily handled by those already in the cattle business.

The 12½-percent increase we have projected would be in addition to the normal upward trend in beef production. Taken together, they could possibly bring about a rise in the beef supply about equivalent to that which occurred between 1962 and 1964, with its accompanying steep drop in cattle prices.

Moreover, the projected 12½-percent increase is not based on nearly all of the expanded feed production going into beef. About one-third of the feed grain potential has been assumed to go into other animal products. This could be expected to create an ample, or overample, supply of other products such as pork and broilers, so that substitution of beef for other meats in the American diet would not be likely to ease the pressure on cattle prices.

The total impact of the projected shift of resources into beef production would likely result in a substantially lower average price level for cattle. And the producers in the Cotton Belt, with their competitive advantage in lower overall feed costs, would generally be in a better position to survive lower cattle prices than their counterparts in most other areas of the country.

The CHAIRMAN. Now, Mr. Cortright, that is a fine statement as to objectives.

Have you any legislation that you would want to present to carry this out?

Mr. CORTRIGHT. No, sir, Senator, we do not have any legislation specifically.

The CHAIRMAN. Were you surprised or disappointed at the way the textile mills failed to purchase the amount of cotton that was contemplated last year when the present law was enacted?

Mr. CORTRIGHT. I think the increased consumption of cotton in the domestic mills has been very much in line with projections. My understanding is that the latest indication is that an additional 800,000 bales of cotton will be consumed domestically.

Senator AIKEN. Mr. Chairman, may I ask, is that an increase in consumption or an increase in purchases?

Mr. CORTRIGHT. This is an increase in consumption.

Senator AIKEN. In actual consumption?

Mr. CORTRIGHT. Yes, sir; in actual consumption by the spinning mills.

Senator EASTLAND. The latest figures are it won't reach 800,000 bales.

Mr. CORTRIGHT. Senator, may Dr. Horne sit here so he can hear?

Senator AIKEN. I asked that question because I had a feeling there was some holding off in buying a year ago, waiting for the passage of the new legislation.

Mr. HORNE. Yes, that is correct.

The CHAIRMAN. In the new legislation, though, there was a provision whereby those who had cotton on hand would get a repayment.

Senator AIKEN. Yes, but even so I would expect there would be a little hold off.

The CHAIRMAN. Or rebate.

Senator AIKEN. I don't know. That is why I asked the question.

The CHAIRMAN. As I recall, the prediction was made that the consumption of cotton this year would be around a million one hundred thousand bales in excess of last year. It happened though, as Senator Eastland just stated, that the amount would be only around 800,000 bales.

Senator EASTLAND. They would be less, what are the figures?

Mr. HORNE. The Department of Agriculture's latest figures, if I am correct, show an increase of 800,000 from 8.6 to 9.4 million in this present crop year.

Senator AIKEN. Yes.

The CHAIRMAN. Yes; but I say it was supposed to have been a million one hundred thousand bales, according to the testimony of quite a few witnesses who appeared before us here.

Now——

Senator EASTLAND. I want to put in the record, Mr. Chairman, an article in—from the Memphis Commercial Appeal, "Consumption Increase Is in Doubt":

New figures raised doubt Friday whether U.S. cotton consumption will increase the 800,000 bales this marketing year the Agriculture Department has predicted.

That is the first paragraph.

I would like to put that in the record.

The CHAIRMAN. Without objection, that will be done.

(The article referred to follows:)

CONSUMPTION INCREASE IS IN DOUBT

From the Commercial Appeal, Washington Bureau

WASHINGTON, June 18.—New figures raised doubt Friday whether U.S. cotton consumption will increase the 800,000 bales this marketing year the Agriculture Department has predicted.

Consumption amounted to 7,678,141 bales during the first 10 months of the year, which ends August 1, the Commerce Department reported. This was an increase of only 549,487 bales over the 7,128,654 bales consumed in the same 10 months last year.

Consumption in May was 742,163 bales, compared to 686,941 in May of 1964, an increase of 55,222 bales.

With only 2 months to go there appeared some doubt the increase predicted by the Agriculture Department would be achieved.

Earlier this spring the Agriculture Department was predicting a 900,000-bale increase. About 2 weeks ago it shaved the estimate to 800,000 bales.

Consumption figures have special interest this year because of the predictions and hopes that the one-price cotton program enacted last year substantially would increase domestic use of cotton. The program, with the help of a Government subsidy amounting to about \$300 million a year, dropped the average price paid by domestic mills for cotton from about 30 cents last year to about 23 cents this year.

The CHAIRMAN. As to the cost of this program under existing law the Department indicated it would be 448 million.

Under the substitute that I presented the costs would be 500 million, and under the law that was finally enacted instead of the loss being 448 million, it is 892.7 million.

Can you account for those losses?

Mr. CORTRIGHT. I am going to let Dr. Horne answer these figures.

The CHAIRMAN. Because that is very important to this committee; not only for cotton but to the entire farm program.

Mr. HORNE. Mr. Chairman, this is a subject that calls for a specialist and I do not pretend to be a specialist on this highly complex matter of cost accounting. Mr. J. Banks Young is right here.

Mr. YOUNG. Mr. Chairman, there are three primary reasons the expenditures for the cotton program this year are larger than was estimated in February of 1964:

One is the fact that exports are substantially lower than had been anticipated.

The CHAIRMAN. Why? Why was the export lower, have you any idea?

Mr. YOUNG. You discussed this with Mr. Cortright a little earlier, Senator.

The CHAIRMAN. Was that anticipated? It was estimated at 5 million plus.

Mr. YOUNG. Yes; that is correct.

The CHAIRMAN. But why is it less than that?

Mr. YOUNG. That is correct, sir, this is one of the reasons why the expenditures are larger than estimated in February of 1964. Since exports were not as large as anticipated the Commodity Credit stocks are larger than they estimated and this is one of the reasons the expenditure was greater than estimated.

The second reason——

The CHAIRMAN. That wouldn't affect domestic consumption.

Mr. YOUNG. No, sir.

The CHAIRMAN. We are talking about domestic consumption now primarily.

Mr. YOUNG. Senator, I thought your question——

The CHAIRMAN. As to costs.

Mr. YOUNG (continuing). Was why the expenditures are running larger than the 448 million estimate made in February of 1964.

The CHAIRMAN. That is right.

Mr. YOUNG. Then you have to get into all aspects of the cotton program including exports and this is the area which accounts for a substantial part of the error in the estimate.

Another reason for larger expenditures, is the fact that there was less participation in the domestic allotment plan than the Department estimated.

Part of that was due to the lateness of the passage of the law and part of it was due perhaps to the fact that the Department set the domestic allotment payment rate at three and a half cents per pound instead of the maximum which would have been four and a half cents per pound.

The third primary reason is because the crop was larger than anticipated. The yield per acre on the 1964 crop equaled the alltime yield of the preceding year, and the Department had not anticipated the crop would be that large.

Those are the primary reasons for the expenditures being greater than had been estimated.

There is one other reason. The \$448 million estimate did not include the one-time, nonrecurring expense during the current year, the biggest of which was the one-time payment for the cotton in inventory which was necessary to convert the price of cotton from the higher level which had prevailed down to the world price level as provided in the law.

Senator JORDAN. Can I ask what that figure was?

Mr. YOUNG. \$83 million on the one-time inventory payment; \$82 or \$83 million.

Senator JORDAN. I thought it was up around a hundred million.

Mr. YOUNG. Just under, as I recall it, Senator.

The CHAIRMAN. There was another allegation made by the proponents of this law last year, as I remember it, that the surplus would be reduced by 1,750,000 bales. That is in the record. But in reality it will be increased by a million—by 550,000 bales.

How do you account for that, Doctor?

Mr. YOUNG. I think, Senator, this is related precisely to the increase in the costs. The lower exports, the lower participation in the domestic allotment plan and the larger crop more than offset the 800,000-bale increase in domestic consumption.

The CHAIRMAN. So that all of the estimates that were made last year that caused the Congress to enact this law failed, all the reasons advanced didn't come to pass.

Mr. YOUNG. No, sir, I would not say that at all. I do not think there was anything in connection with the enactment of the legislation in 1964 that had any effect on the high yield per acre or the lower exports.

The CHAIRMAN. But what caused Members of Congress, who were not interested in the cotton producer, to vote for this were the allegations by the proponents that it would reduce the surplus from 1,750,000 bales and that the cost would be \$448 million, and that by equalizing

the price to all purchasers of cotton both for domestic and foreign use, it would materially increase the consumption of cotton.

Those were the three major points that were advanced as arguments in support of this program, and as I said, none of them came to pass.

Senator JORDAN. Mr. Chairman, it all came to pass partially and largely—as he pointed out—because the Lord was good to the farmers last year.

The CHAIRMAN. The Lord has always been good to growers.

Senator JORDAN. I know that but when you raise an alltime high crop it has something to do with it.

Now, you have to take into consideration that the textile mills in this country did use 800,000 bales more than they used the prior year which is a lot of cotton.

The CHAIRMAN. They would have used 600,000, though, according to estimates under my bill. They would have increased it by 600,000 bales without this one-price law.

Senator JORDAN. That is something nobody knows.

The CHAIRMAN. That was the argument advanced.

Senator JORDAN. Well, I know but you can't tell what a crop is going to produce until after it is gathered and you can't tell how much stuff people are going to buy until after the year is over.

Now, you can't tell how much you are going to export until the year is over. Now, I think part of this was maybe some error in judgment in our exporting. We could have exported more cotton if we would have handled the program a little differently. I don't think there is any question about it. It might have cost a little bit more money but we would have pulled our surplus down, which would have moved more cotton and reduced storage charges to boot.

The CHAIRMAN. Well, as I stated on two or three occasions since the opening of these hearings we, in the Senate, are at a great disadvantage as compared to the House.

The House is composed of a majority of Congressmen who represent the consumers, more than in the Senate. They are city boys, they are from the city, and I can well remember last year when the Secretary of Commerce, Mr. Hodges, came in here, and told us without question that the consumer would benefit to the tune of \$700 million, but the facts show that instead of saving that, it cost consumers more.

Cotton goods went up, and those are the things that are being thought through by those who are going to have to vote on any of these programs that come this year, that is what we are up against.

My fear is that if these programs continue to cost as much in the future as they have in the past, that the whole farm program is in jeopardy.

Senator BASS. Will the chairman yield?

You made a statement that cotton goods have increased.

Do you have any statistics on that?

The CHAIRMAN. Yes, oh, surely.

Senator BASS. I would like to have them just now.

The CHAIRMAN. You can get them. Mr. Freeman was here and testified, he testified to that fact. That they increased instead of—that is in his statement.

Senator RUSSELL. Dr. Horne's statement sort of explains that in a little more detail.

The CHAIRMAN. I assume you are going to get that from the textile mills who are going to testify?

Senator RUSSELL. It is already in this statement. It is in Dr. Horne's statement.

The CHAIRMAN. It might be we are ahead of the procession, at least I am, in raising that question, when we are going to get witnesses from the textile mills who are going to probably present their side of it.

Mr. HORNE. Mr. Chairman, may I submit some figures on the cost of cotton textiles?

The CHAIRMAN. Yes, indeed.

Mr. HORNE. There are, of course, several sources of figures on this subject. I suppose that the one to which you might give the greatest credence would be the official agency of the U.S. Government which prepares most of the indexes of wholesale and retail prices. This is the Bureau of Labor Statistics of the Department of Labor. And I have in the study that we are submitting to you the indexes of the wholesale cost of cotton fabrics prepared by the Bureau of Labor Statistics, and I have these figures here for March 1964, and March 1965. These figures show a decrease in the average cost of cotton fabrics.

At the same time they show an increase in the average cost of fabrics from manmade fibers.

Now, there is also another source of information——

Senator BASS. Do you have it in percentages?

Mr. HORNE. Yes, sir.

Senator RUSSELL. Where is this in your statement?

Mr. HORNE. On page 20 of this larger statement.

There is also another source of information which is commonly used. This is the information published in the Daily News Record, a textile publication. This journal publishes prices on a large number of types or constructions of cloth. We have compiled from it the figures on all the types on which it does publish prices, and they total 77 different cotton fabrics. The average price per yard of those 77 cotton fabrics was down from 28.89 cents on March 31, 1964, to 28.06 cents on March 31, 1965. That is a reduction of somewhat more than three-fourths of a cent per yard.

The CHAIRMAN. I am talking about the consumer, Dr. Horne.

Mr. HORNE. All right. All right, sir. Let's go on then and talk about the indexes of consumer prices.

Senator RUSSELL. If you will direct us to the pages in your report as you testify.

Mr. HORNE. Yes, sir.

My general discussion on textile prices begins on page 13 of this large statement and goes to about page 21.

Now, if you are satisfied on cloth prices we will move to consumer prices.

The CHAIRMAN. I am not satisfied with any of it. Just put your figures in the record, if you have them.

Mr. HORNE. All right, sir.

The CHAIRMAN. Your figures may indicate that there has not been an increase but what they ought to show is a decrease to the consumer,

according to the testimony presented to us here last year. Mr. Hodges, then Secretary of Commerce, stated there would be in no uncertain terms. He sent a letter and testified, it is in the record, that the consumers would benefit to the tune of \$700 million. And that is what caused quite a few Senators and Congressmen to vote for this bill. Because they felt that if there would be an increase in the cost of the program, if the consumer got the benefit of it why it would even things up, and that is what I was in hopes that you could show.

Mr. HORNE. May I submit some evidence on that?

The CHAIRMAN. Yes, indeed, we want it. I want to say this to all of you gentlemen that all of the facts and figures that you are going to present will be again studied by this committee and the Department of Agriculture will be given an opportunity to come before us again and either disprove or agree that what you said is correct, one or the other.

Mr. HORNE. Well, I don't—

Senator EASTLAND. Everything they said last year was wrong.

The CHAIRMAN. How is that?

Senator EASTLAND. Everything they predicted last year was wrong.

The CHAIRMAN. Of course it was. There is no doubt about it.

Mr. HORNE. I am quoting published figures from recognized agencies. Of course, the Department of Agriculture is one of those and they have some authentic figures on the subject which are included in the analysis that we are submitting.

But now on the matter of the price of end products to the final consumer, all of the American people, the true fact which I am sure you recognize, is that over the past year there has been a tremendous upsurge of consumer demand for everything. It has been a very prosperous period in which prices generally have risen. The index of consumer prices published by the U.S. Government, through the Department of Labor, shows an overall increase of 1.21 percent in everything, everything we buy, between March 1964 and March 1965.

The CHAIRMAN. You mean an increase?

Mr. HORNE. Yes.

Now in the case of clothing, sir, the increase has been a little more than one-third as much as that. Now, this includes manmade fiber products on which it is acknowledged by everyone there has been an important increase in textile prices.

The CHAIRMAN. Yes.

Mr. HORNE. But the cotton cloth prices have declined on an average and I submit to you, sir, that this is the primary reason why apparel prices have not risen as much as other prices over this past 12 months.

The CHAIRMAN. With all this tremendous economic activity I am surprised that the textile mills used but 800,000 bales more this year, and I am also surprised that they continue to use manmade goods with cheap cotton.

Last year they said, "Here, you give us cheap cotton and we won't use manmade fibers" but that didn't happen. It is not happening.

Mr. HORNE. As for your surprise that they only increased cotton consumption by 800,000 bales, the fact is in general they have been operating very nearly at capacity, their total manufacturing capacity, and in many constructions they have.

The CHAIRMAN. But to what extent have they decreased the use of manmade fibers?

Have you got the figures to show?

Mr. HORNE. The fact is that on the cotton spinning system of this country, while—I am comparing the period just before the act of 1964 passed with a period 1 year later. Across that period the consumption of rayon did not rise, while the consumption of cotton rose very substantially. The consumption of cotton rose very substantially on the cotton spinning system and the consumption of rayon did not change materially.

The CHAIRMAN. How about other?

Mr. HORNE. The noncellulosic fibers in which the price is much less of a factor, continued to increase in their share of the market.

So you have two offsetting forces: The share held by rayon declined, the share held by noncellulosics increased.

On balance the manmade fibers did not have much of an increase or decrease during the 12-month period after this act passed. This was a sharp change from what had happened previously when on balance, taking the whole group across the board, they had been rapidly gaining against cotton.

Their gains on balance in the overall picture were checked and they have not been able to gain further on cotton.

The CHAIRMAN. Well, now, you made a statement a while ago that kind of alarms me. With the increased consumption of 800,000 bales, do you mean to say that our cotton mills have reached their capacity?

Mr. HORNE. Well, they are rapidly expanding their capacity now and I don't mean to say in all constructions they have reached their capacity. There will be textile people to testify here who are much better informed on this but certainly—it is widely known that many plants moved up to their full operating capacity in this past year.

The CHAIRMAN. All right.

Any further questions of Mr. Cortright?

If not, we thank you very much.

Mr. Cheatham?

All right, Mr. Cheatham. Identify yourself for the record and proceed.

STATEMENT OF J. M. CHEATHAM, CHAIRMAN, COTTON POLICY COMMITTEE; AND ROBERT C. JACKSON, EXECUTIVE VICE PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. CHEATHAM. Mr. Chairman, my name is J. M. Cheatham, I am president of Dundee Mills of Griffin, Ga.

Mr. CHAIRMAN, I have a very relatively short statement and with your permission, sir, I would respectfully like to ask that you let me conclude it if you will, sir.

The CHAIRMAN. All right, without interruption, proceed.

Mr. CHEATHAM. Thank you.

My name is J. M. Cheatham. I am president of Dundee Mills of Griffin, Ga., but appear here in my capacity as chairman of the cotton policy committee of the American Textile Manufacturers Institute.

I have with me here Mr. Robert C. Jackson, executive vice president of the institute and our economist, Don May.

The membership of our association is made up of the manufacturers of yarn and fabric from cotton, manmade, and silk fibers. Our industry is basic on character, in that we spin, weave, and finish our goods and this output goes to other processors for further processing such as bleaching, dyeing, finishing, and conversion into consumer products.

Our plants are located largely in the New England, Middle Atlantic, and Southeastern States with some facilities extending as far west as Texas and New Mexico. Textile manufacturing employs more than 900,000 persons, has an annual payroll of \$3.7 billion, and last year had shipments valued at \$17.8 billion.

In other words, sir, it is a major industry, sir, no matter what yardstick you measure it by.

We are grateful for this opportunity to participate in this hearing on proposed cotton legislation. It is reassuring to us that the administration and the Agriculture Committees of this Congress realize the necessity of grappling again with the Nation's cotton problem.

Our objective here today is to try to evaluate the cotton situation from the vantage point of the industry through which the product moves to market. As you know so well, cotton has no intrinsic value in its natural state; it is valuable only as it moves through the processes of spinning, weaving or knitting, finishing and fabricating into one of its thousands of end uses.

Except for the last step—fabricating—this is our job. And even there, the fabricators are our customers, so we are intimately involved with their operations.

The sole activity and business of the textile industry is to take raw fiber—cotton, manmade, silk, or other—process the fiber into textile products, and sell the result. We spend enormous sums each year in market development, research, promotion, advertising, and selling cotton products. We have thousands of experts engaged full time in moving cotton into channels for consumption. With this background, we know intimately the forces that affect our industry's choice of fiber.

In appearing before this committee, your committee, last year, our witness, Mr. William H. Ruffin, said, "Based on the experience of the textile industry in trying to make cotton competitive in the textile markets we say to you without the slightest equivocation that cotton today is in a rapidly deteriorating situation."

Bound by the existence for almost 30 years of a firm embargo on imports of upland raw cotton from all other countries and I might add except for less than 1 day's consumption, coupled with a legislated policy of selling cotton abroad at prices substantially below the U.S. level, our industry had become hamstrung to an extent that confidence in cotton as a textile raw material was almost at a breaking point.

Today, I am pleased to report that, under a system where for the first time since 1956 American mills can buy American cotton for the same price it is sold to our foreign competitors, cotton is on the march again.

The objective of the new cotton law was to turn around the declining cotton economy and head it in the right direction of increased consumption and restored confidence. This is being accomplished.

The basic objective of the law was not to stimulate the textile industry, as such; but as a very real and practical matter, you and we know

that there is no way to stimulate and expand domestic utilization of the fiber except through stimulation and expansion of the industry through which cotton moves to market. It is in this area that we can speak with knowledge and authority and we can tell you with assurance that today, after less than a year's experience under the full impact of the new law, our industry is viewing cotton in a new light.

As you know, the latest estimate by the Department of Agriculture is that U.S. consumption this crop year will amount to 9.4 million bales, an increase of 800,000 bales above the 1963-64 crop year. Compared with what the consumption figure might have been if the two-price system had remained in effect, in my judgment, it represents an increase of perhaps 1.5 million bales.

The last time cotton consumption increased as much as 800,000 bales from the previous year was in 1950-51, 15 years ago as you recall in the Korean conflict.

Such an increase is particularly impressive when compared with the consumption figures for the crop year of 1962-63, when we consumed 680,000 fewer bales than in the previous year.

Our equipment for weaving cotton cloth reached an alltime high operating rate during the first quarter of this year. Loom-operating hours, that is a standard yardstick of production in our industry, averaged 136 a week, as compared with 129 hours weekly a year earlier.

It seem to me that the fact that we are currently consuming more cotton than we have in any year since 1952-53 should be interpreted as proof of the merit of the one-price system.

This first chart is on employment and it covers the years 1956 through April, I believe, of this year.

Under the one-price system, we have seen our employment rise, the tail end of that curve. The April total was at 924,000 persons, that is up 29,000, as you will note from the previous April. You will note the sharp decline, though, that occurred from 1956 during the time we were operating under a two-price system. Mills were closing, both in New England and in the South, even some of our textile areas were classified as distressed areas. There was unemployment in many of these localities but today we are pleased to state that that trend is up and will probably continue in that direction.

On the subject of wages, a general wage increase of about 5 percent spread throughout the industry late in 1963 in anticipation of one-price cotton, another in the fall of 1964 in the wake of one-price cotton, and a third 5 percent has currently been put into effect.

Our industry's payments to production workers—not including fringe benefits and contributions to pension programs—increased some \$170 million in 1964 over 1963. For the first quarter of this year, payrolls, calculated on an annual rate basis, were increased an additional \$180 million. And the latest adjustment I have just referred to is expected to add a similar annual amount to employee earnings. Thus, you will see that in the short period of 18 months, textile worker annual earnings have increased more than \$500 million.

Now to refer to another chart on earnings. Ours industry earnings have also improved substantially for the first time in many years.

The large profits gap between textile mills and other manufacturing industries was narrowed—on sales, on stockholders' equity, and on

total assets, textile mills earned 3.1 percent on sales in 1964; whereas all manufacturing industries earned 5.2 percent. But, no matter how measured, textile profits failed to rank higher than the 16th among the 20 major manufacturing industries in the country.

As you will note from the chart, textile mills earned 3.1 percent after taxes on sales in 1964 whereas all manufacturing including textiles earned 5.2 percent.

As a matter of fact, if you took us out in the averages all manufacturing would exceed 5.2 percent. But no matter how measured, textile profits failed to rank higher than 16th among the 20 major manufacturing industries in the country, whether it was on sales, on equity, or on total assets the best place we could get was 16th, the very best.

In fact, our earnings are only about 60 percent of the level enjoyed by the average of all other manufacturing industries. Yet, we must compete with all other industries in the labor market; for the investor's capital; in efforts to attract the ablest scientists, researchers, promotion and marketing experts; for funds to promote, advertise, and sell cotton products; for funds to improve and expand our production facilities, so we can turn out an ever-larger volume of a better product at a lower cost.

Knowing these facts that are so fundamental in the functioning of our competitive enterprise system, it is difficult for us to understand the criticism of improved textile mill earnings by those who have, or profess, a real interest in cotton's future.

It is only logical, reasonable, and desirable for the future of the product to rest in the hands of a manufacturing and marketing structure which is increasing its ability to expand and prosper.

Criticism might be deserved if the industry were simply pocketing its added earnings, without regard for its obligation to demonstrate its new-found confidence by spending its money for improvement and expansion. But the record speaks for itself in this regard, and we bow to no other industry in America on this score.

With cotton competitively priced, a strong demand for cotton products, and a booming general economy, textile mill managements have launched a plant expansion and modernization program of hysterically—I mean historically—[Laughter.]

Senator, if we don't get this one price bill renewed in some form we may be hysterical. [Laughter.]

I have another chart I would like to call your attention to on plant and equipment.

Current estimates by the Department of Commerce for new plant and equipment expenditures this year are placed at \$990 million, as compared with a 5-year average of \$608 million. These capital outlays are the industry's response to the opportunity provided by the one-price cotton system. Relative to net worth, this is the highest rate of expenditure for capital improvement of any major industry in the Nation.

The textile industry is sharing in the upsurge in the national economy and, at the same time, contributing to it. Our operations have had a favorable impact on the economies of the communities and States in which our plants are located. Additionally, our suppliers of fibers, chemicals, machinery, transportation, and everything else we use have benefited from the revitalization of our industry. And so have the treasuries of the Federal, State, and local governments.

It is an impressive record and we are proud of it and I believe it will continue under this framework I have been talking about.

If you will pardon a personal reference, we are making an announcement today in the New York trade papers of modernization of an existing mill of ours in Griffin, Ga. It involves a substantial expenditure of money. The mill is on all cotton. It will be re-equipped for all cotton, and in addition to that we are opening bids tomorrow in Atlanta, Ga., for an addition to an existing mill in Hartwell, Ga., to house a little more productive equipment, and it, too, is on all cotton.

The amount involved between the two is approximately two and a half million dollars. For a company our size it is substantial for us at any rate. But my point is, sir, I don't think we would have the courage to go ahead with that if we didn't have faith and confidence that this one-price system in some form would be renewed. In other words, we are putting our money on cotton, and we want to see it go through that way.

Gentlemen, you may have heard opponents of the program say that lower cotton costs have not been reflected in the prices consumers are asked to pay for cotton products.

The answer to this charge is found in the operation of the law of supply and demand.

Virtually everyone concerned with the cotton textile industry—in the Government and out—expected consumer price reductions to materialize. However, as the months dragged on without final action on the legislation, uncertainty marked our operations and those of our customers at every stage of processing and distribution. The whole textile market pipeline was virtually empty on the eve of final congressional action when one-price cotton became a reality. The pent-up demand, overhanging the market, was unleashed and business surged ahead.

This was, and is, simply the supply-and-demand factor functioning normally in what is generally acknowledged to be the most competitive big industry in America.

The suggestion that textile prices, and textile prices alone, are abnormally high can be met with a look at the wholesale price indexes used by the Government.

If you will look at the 1947-49 base, Mr. Chairman, this has been measured. Looking at the chart which speaks for itself, you will note the wholesale price index for all industrial commodities has moved up 29 percent while cotton products have fallen 10 percent. We are proud in some ways of that. In some ways we are not.

One of the Governors of the Federal Reserve Board addressed one of our meetings and congratulated us on not being any contributing cause to inflation. This was right at the bottom of a very bad time in our business, and his words sort of fell on barren ground but we certainly cannot be charged with that.

In other words, our prices are 10 percent lower than they were 18 years ago. Thus, over the postwar period as a whole, textile prices have lagged 39 index points behind industrial prices generally—a tremendous contribution to consumer living cost savings. Early in the present decade, the Government moved these and other indexes forward to a 1957-59 base. The effect was to wipe out this great index gap overnight that we had had, as both the textile and total

industrial wholesale price indexes were redefined as 100 for the new base period.

In other words, we were 90 and then it started all over again and we went to 100, another was 129 and he went back to 100.

So, we start on the 1957-59 base as 100.

Calculated on this new 1957-59 base, the wholesale price index for all industrial commodities and for cotton products both stood at 101.2 during the first quarter of 1964, prior to one-price cotton. By July 1964, after the new law was passed, the cotton products index fell to 98.3, while all commodities held at 101.1. Then, with the stimulation in the economy, both indexes began to rise. The most recent figures are 102.1 for all industrial commodities and 99.7 for cotton products.

In other words, cotton products are still slightly below the 1957-59 base.

The American textile consumer today is getting more for his money than at any time since World War II. He is being offered an array of styles, colors, fabrics, finishes, and quality unmatched anywhere else in the world.

Just as an aside, only recently Mrs. Esther Peterson, who as you know is the President's adviser for consumer affairs, visited a number of New York textile sale offices and she is quoted in the press as saying, and I quote:

The consumer is terribly fortunate in getting good value for his dollar in textiles and apparel.

Cotton is a traditional textile fiber and is required for many end uses. But we are operating in a multifiber world. More and more manmade fibers are being consumed, and this has contributed substantially to the industry's improved earnings position. The fact is that, while we do not have a breakdown on the figures to substantiate this statement, our general knowledge of the subject leads us to believe that, during the past year, most textile mills had better earnings on their manmade fiber and blend operations than did those processing all cotton.

But our experience of the past year convinces our industry beyond doubt that cotton can share fully in the continued expanded textile production that is sure to come, provided, the fiber isn't disadvantaged costwise, and, provided, there is a wholesome confidence in cotton as a textile raw material.

Based on years of experience with a two-price system, and years of effort to correct the inequities imposed by that system, we say to you, with complete assurance, that never again can our industry place its confidence in cotton as a basic raw material under the uncertainties and inequities imposed by a two-price system. We will continue to use cotton, of course, but at a constantly declining rate. Plain economics will demand that all the forces of our competitive enterprise system—forces such as market research and development, styling, designing, promotion, advertising, long-range planning of plant and equipment—be shifted away from cotton to other fibers.

Now, to pull some of this together, I have one more chart and I would like to refer to it and just boil it down. The chart shows No. 1, consumption up 800,000 bales; No. 2, loom operating hours running at a historical high; No. 3, 30,000 more jobs; No. 4, wages up 15 percent over the past 18 months; No. 5, during that same period our

payrolls, total payrolls, not including fringes and pension or profit-sharing plans, are up by \$500 million; No. 6, approximately a billion-dollar expansion in plant and equipment; and No. 7, over the 1947-49, 18-year range, cotton prices down 10 percent and yet all industrial prices up 29 percent over those postwar years.

But to conclude, Mr. Chairman, as processors of cotton for many years, we have taken the position that our industry should not attempt to suggest the specifics of cotton farm policy. There are too many considerations involved that are outside our province. However, we do subscribe to certain fundamentals.

We believe there cannot be a healthy and growing cotton textile manufacturing industry in this country without a healthy and growing cotton farm economy. We are mutually interdependent. Therefore, we feel that any cotton policy devised by the Congress should move in the direction of improved net return to cotton producers.

We believe that just as our industry must move in the direction of absolute peak efficiency of production, so must cotton growing move in this direction. Therefore, the efficient farmers and the efficient areas must be encouraged to continue to expand their cotton operations. Obviously, such farmers and such areas are not confined to any one location; they are scattered from North Carolina to California.

We believe there cannot be a healthy, dynamic cotton farm economy in this country without a sizable raw cotton export market. During recent years, we have watched our share of the world export market decline steadily to a point where our country is the timid, residual supplier, just as the previous witness, Mr. Cortright, stated. We take what is left when all the other countries have satisfied their sales objectives. Our national policy should be to supply a fair, historic percentage of free world requirements, and we should not settle for anything less.

Peak efficiency of cotton production in this country cannot be achieved or maintained on the basis of a domestic market alone. Our farmers must have a broader market structure. Failure in this regard will create a declining base of production and could result in the American mills being forced to seek access to cotton grown in other countries.

Finally, as we have attempted to set out in this statement, we know that a one-price system is absolutely essential to the future of a dynamic cotton economy of the United States.

It has been demonstrated beyond doubt that, under the stimulus of a one-price system, the textile industry will go all out to consume more cotton. Admittedly, some other aspects of the cotton program have not worked as anticipated. But the one-price policy to increase domestic consumption has succeeded. We must bear in mind that the U.S. textile industry is the customer for two-thirds of American-grown cotton. Surely, a policy which is working so well must be carried forward in whatever program is devised. To break away from it would be to discard the most promising feature of the entire effort.

Given a one-price system, we can say to you with confidence that our industry will continue to invest its money, its talents, and its ingenuity in the interest of expanded cotton consumption.

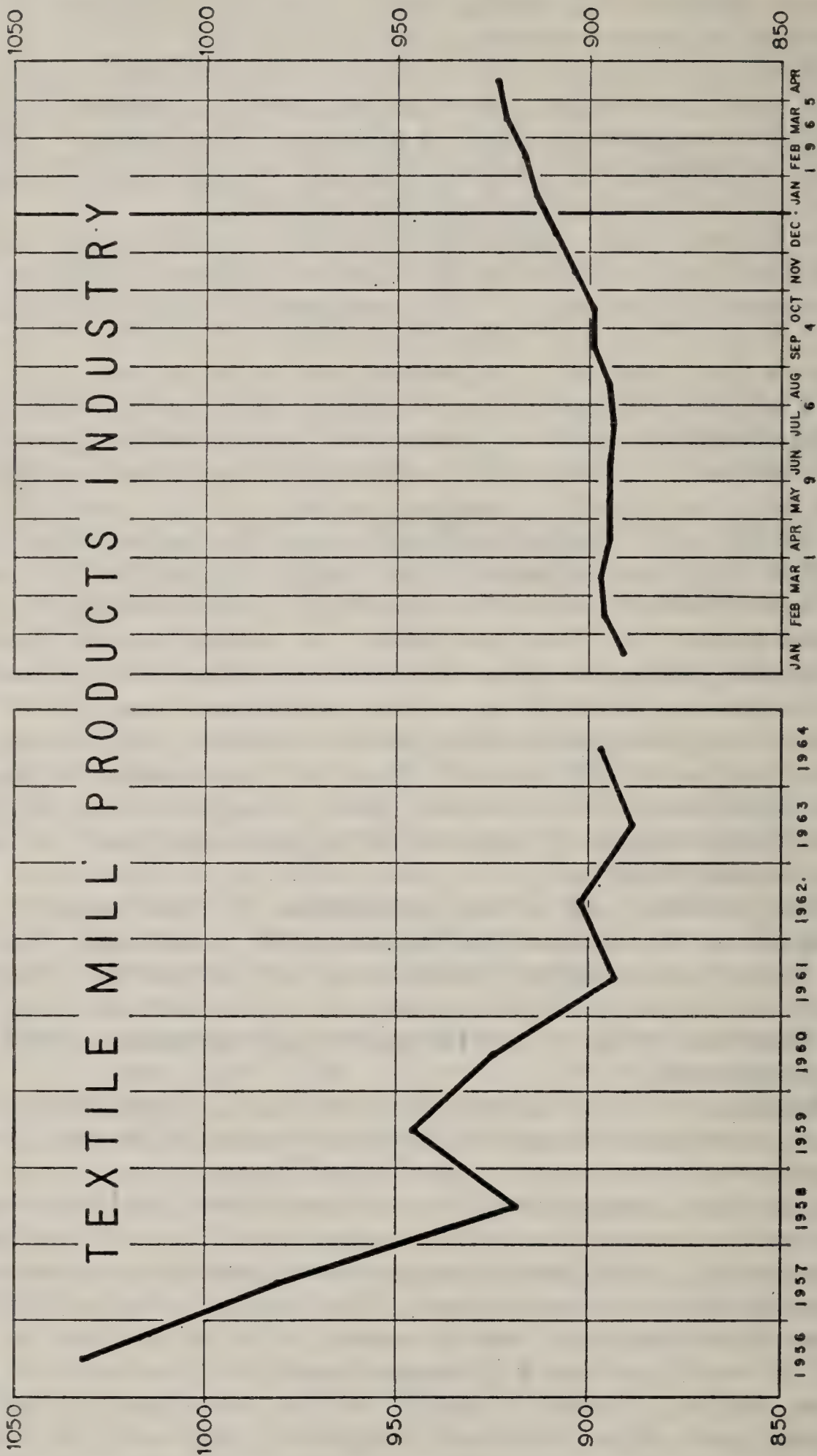
Thank you, sir.

(The charts and tables attached to Mr. Cheatham's statement are as follows:)

EMPLOYMENT

Annual 1956 - 64,
Monthly 1964 - 65

Thousand Employees - Seasonally Adjusted Monthly Averages



Source: Bureau of Labor Statistics, U. S. Department of Labor

EMPLOYMENT IN THE TEXTILE MILL PRODUCTS INDUSTRY, ANNUAL 1956 TO 1964,
MONTHLY 1964 AND 1965

Employment in the textile mill products industry fluctuated from year to year from 1956 through 1963 but showed a generally downward trend. In 1956, textiles employed 1,032,000 and this declined to a low point of 889,000 in 1963. For 1964, employment averaged 897,000. Employment in April 1965 was 924,000 or 29,000 above April 1964.

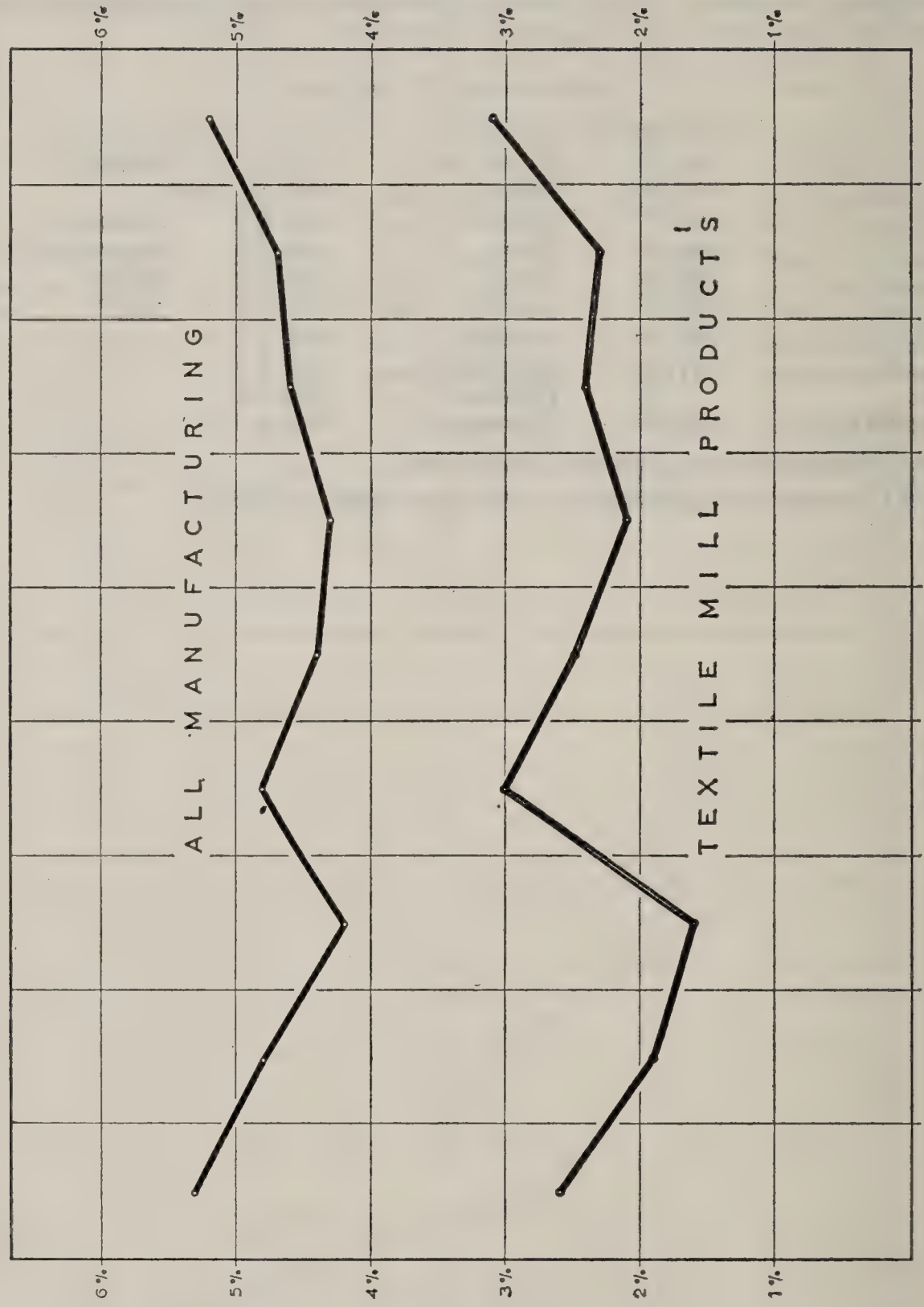
The recent rise in employment has also been accompanied by a rise in average weekly hours worked. Work time in 1964 was higher than at any time during the past 10 years and it continues at a high rate.

[Thousands of employees]

1956-----	1, 032. 0	1964—Con.		1964—Con.	
1957-----	981. 1	February---	896. 0	December---	909. 0
1958-----	918. 8	March-----	897. 0	1965:	
1959-----	945. 7	April-----	895. 0	January----	914. 0
1960-----	924. 4	May-----	895. 0	February---	917. 0
1961-----	893. 4	June-----	895. 0	March-----	922. 0
1962-----	902. 3	July-----	894. 0	April-----	924. 0
1963-----	888. 8	August-----	895. 0		
1964-----	897. 2	September--	899. 0		
1964:		October-----	899. 0		
January----	891. 0	November--	904. 0		

NOTE.—Monthly averages, seasonally adjusted.
Source: Bureau of Labor Statistics, U.S. Department of Labor.

PROFIT RATES ON SALES :
1956 - 64



Source: U.S. Federal Trade Commission and Securities & Exchange Commission

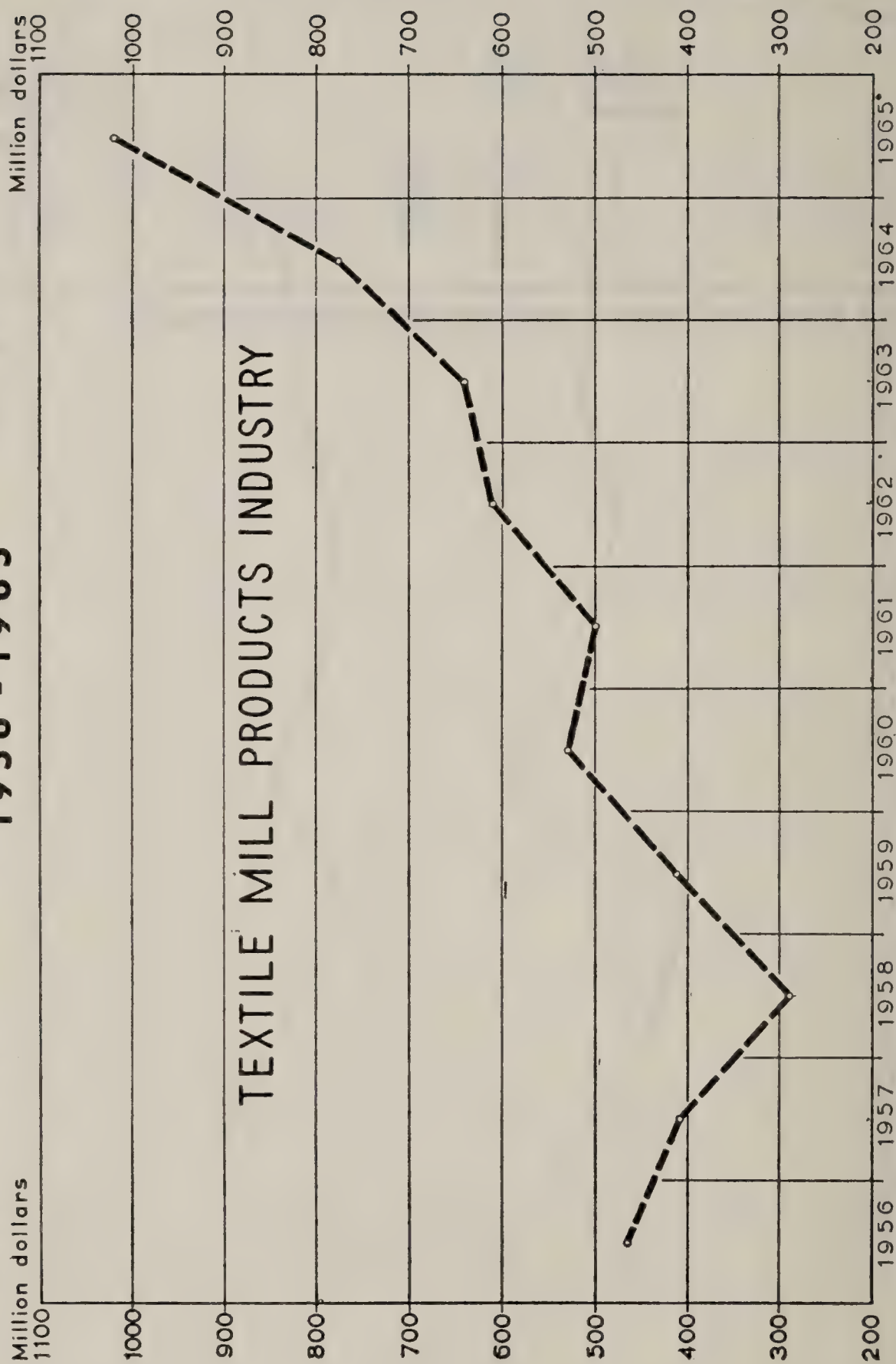
PROFIT RATES ON SALES, 1956-64

The wide gap between earnings, after taxes, for textile mills and average for all manufacturing industries was narrowed somewhat in 1964, whether measured on sales, on stockholders' equity, or on total assets. But despite the improvement, textiles ranked 16th among the 20 major U.S. industries in profits on sales, 19th among the 20 in profits related to total assets, and on the bottom of the 20 in profits related to stockholders' equity.

	All manu- facturing industries	Textile mill products		All manu- facturing industries	Textile mill products
1956-----	5.3	2.6	1961-----	4.3	2.1
1957-----	4.8	1.9	1962-----	4.6	2.4
1958-----	4.2	1.6	1963-----	4.7	2.3
1959-----	4.8	3.0	1964-----	5.2	3.1
1960-----	4.4	2.5			

Source: U.S. Federal Trade Commission and Securities and Exchange Commission.

NEW PLANT AND EQUIPMENT EXPENDITURES 1956 - 1965



* Estimate based on business expenditures anticipated in February 1965.

Source: U.S. Department of Commerce and Securities & Exchange Commission

NEW PLANT AND EQUIPMENT EXPENDITURES, TEXTILE PRODUCTS INDUSTRY, 1956-65

Projected expenditures on new plant and equipment in the textile mill products industry for 1965 are 47 percent higher than expenditures in 1964 and about double the average expenditures for the preceding 9 years. For the first time in history, textile expenditures will exceed \$1 billion in 1965.

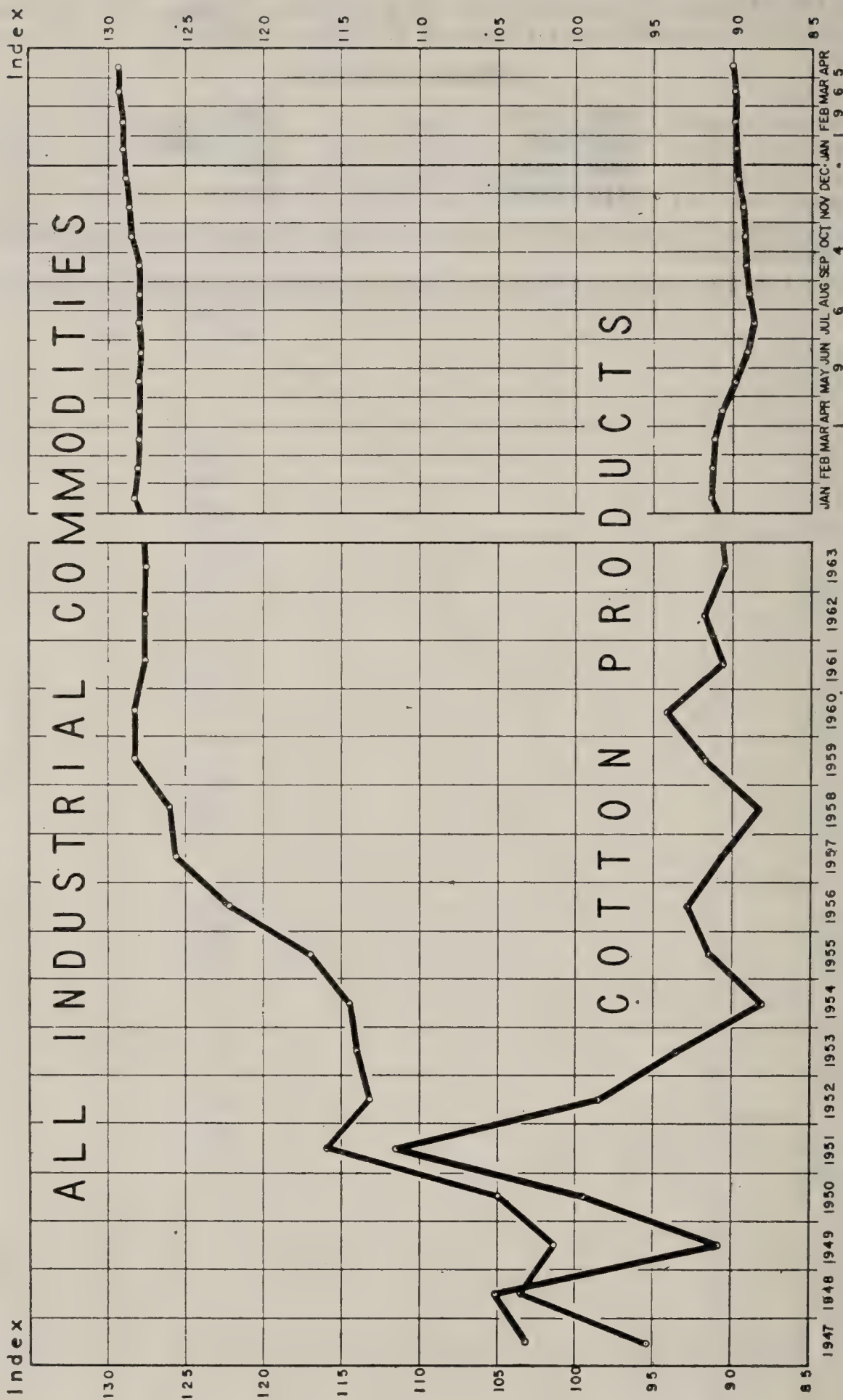
[Millions of dollars]

1956-----	465	1960-----	530	1964-----	760
1957-----	408	1961-----	500	1965-----	1, 020
1958-----	288	1962-----	610		
1959-----	412	1963-----	640		

NOTE.—1965 data are estimates based on anticipated expenditures reported by businessmen in February 1965.

Source: U.S. Department of Commerce, and Securities and Exchange Commission.

WHOLESALE PRICE INDEX (1947-49 = 100)



Source: Bureau of Labor Statistics, U.S. Department of Labor

WHOLESALE PRICE INDEX, ALL INDUSTRIAL COMMODITIES AND COTTON PRODUCTS,
1947-63 ANNUAL, 1964 AND 1965 MONTHLY

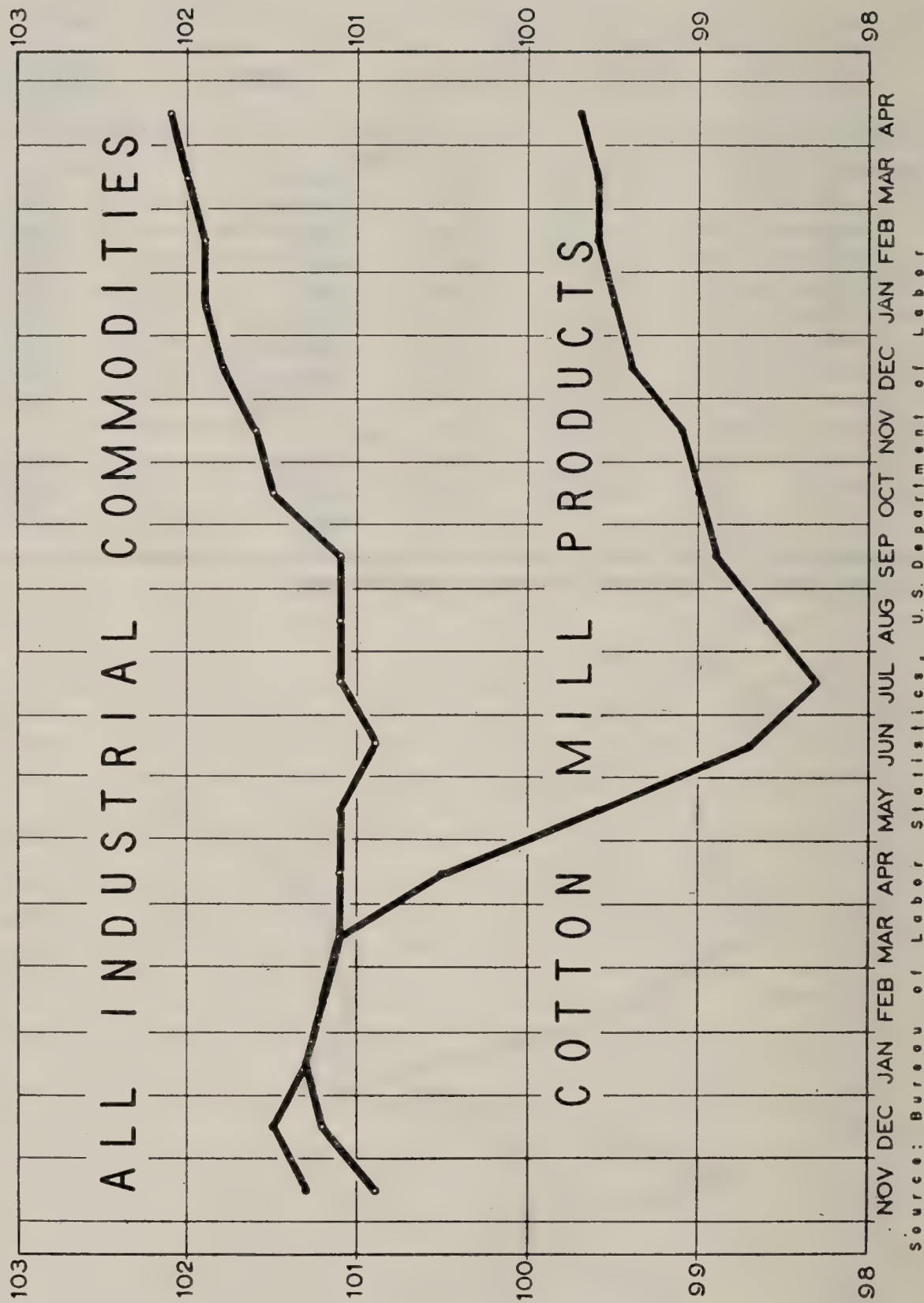
[Base, 1947-49=100]

Taking 1947-49 as the base, a gap between the wholesale price index for all industrial commodities and that for cotton products began to develop immediately in 1950 and by 1958 it had reached nearly 38 percentage points. In April 1965, the gap was 39.3 percentage points. The gap was composed of a 29.3-point rise in the index of all industrial commodities and a fall in cotton products of 10 points.

Year	All indus- trial com- modities	Cotton products	Year	All indus- trial com- modities	Cotton products
1947.....	95.3	103.1	1964:		
1948.....	103.4	105.0	January.....	128.3	91.4
1949.....	101.3	91.8	February.....	128.1	91.3
1950.....	105.0	99.5	March.....	128.0	91.2
1951.....	115.9	111.5	April.....	128.0	90.7
1952.....	113.2	98.5	May.....	128.0	89.9
1953.....	114.1	93.6	June.....	127.8	89.1
1954.....	114.5	89.1	July.....	128.0	88.7
1955.....	117.0	91.5	August.....	128.0	89.0
1956.....	122.2	92.9	September.....	128.0	89.2
1957.....	125.6	90.7	October.....	128.5	89.3
1958.....	126.0	88.3	November.....	128.6	89.4
1959.....	128.3	91.7	December.....	128.9	89.7
1960.....	128.3	94.2	1965:		
1961.....	127.6	90.6	January.....	129.0	89.8
1962.....	127.6	91.8	February.....	129.0	89.9
1963.....	127.5	90.5	March.....	129.1	89.9
			April.....	129.3	90.0

Source: Bureau of Labor Statistics, U.S. Department of Labor.

MONTHLY WHOLESALE PRICE INDEXES
November 1963 - April 1965
(1957-59 = 100)



Source: Bureau of Labor Statistics, U.S. Department of Labor

MONTHLY WHOLESALE PRICE INDEXES, ALL INDUSTRIAL COMMODITIES AND COTTON PRODUCTS, NOVEMBER 1963–APRIL 1965

[Base, 1957–59=100]

From April to July 1964, the cotton products index fell sharply but recovered somewhat in the following 2 months, while all industrial commodities remained virtually unchanged for the whole 6-month period, April to September 1964. Since October, there has been a slow rise in both indexes, with all industrial commodities rising slightly faster than cotton products.

Thus, after the initial price fall following the adoption of the one-price cotton system, cotton products came under the same influences which led to a general rise in wholesale prices of all industrial commodities.

Year and month	All industrial commodities	Cotton products	Year and month	All industrial commodities	Cotton products
1963–November	100.9	101.3	1964–August	101.1	98.6
December	101.2	101.5	September	101.1	98.9
1964–January	101.3	101.3	October	101.5	99.0
February	101.2	101.2	November	101.6	99.1
March	101.1	101.1	December	101.8	99.4
April	101.1	100.5	1965–January	101.9	99.5
May	101.1	99.6	February	101.9	99.6
June	100.9	98.7	March	102.0	99.6
July	101.1	98.3	April	102.1	99.7

Source: Bureau of Labor Statistics, U.S. Department of Labor.

COMPARISON OF SELECTED NET PROFIT RATIOS FOR TEXTILE INDUSTRY AND OTHER CORPORATE MANUFACTURING INDUSTRIES, 1963 AND 1964

INTRODUCTION

In 1964, U.S. corporations enjoyed their best earnings year of the current business expansion. Profits before taxes increased \$6½ billion over 1963 to a record \$57½ billion. Except for the recovery years of 1950, 1955, and 1959 this was the largest increase in profits in the postwar period.

With the reduction in corporate tax rates, \$5 billion of the increased gross profits remained as after-tax profits, which amounted to \$31¾ billion. Dividends rose by \$1¾ billion during 1964, and undistributed profits by \$3¼ billion.

Table 1 shows corporate profits before tax by broad industry groups for 1963 and 1964. Manufacturing corporations for the year 1964 increased their before-tax profits by about 16 percent over 1963 levels. This percent increase exceeded the 13 percent average increase earned by the total corporate sector.

RECORD OF CORPORATE MANUFACTURING BY INDUSTRY GROUP

The overall estimates of corporate manufacturing profits mentioned above reflect divergent movements in corporate profits for the various industry groups. Tables 2, 3, and 4 compare profit ratios for 1963 and 1964 both of the total corporate manufacturing sector and individual industry groups.

Table 2 presents the ratios of net profits after taxes to stockholders equity. The total for all manufacturing groups increased by 12.6 percent in 1964 (10.3 percent to 11.6 percent). Textile mill products increased from 6.1 percent to 8.5 percent, or by 30.8 percent. Only leather and leather products (52.2 percent), apparel and other finished products (51.9 percent), and printing and publishing except newspapers (38.5 percent) showed greater percent increases than textile mill products.

In spite of this healthy increase in the profit ratio for textile mill products, this industry still ranked 20th, or last, both in 1963 and 1964, in the earnings attributed to the corporate stockholders. The level of stockholders' earnings in the textile mill products group increased in 1964 to 73.3 percent of the average earned by the corporate manufacturing sector. In 1963 it was only 59.2 percent of the average earnings. The above-average earnings increase from 1963 to 1964 of textile mill products thus represented a narrowing of the gap between the below-average earnings in this industry and the other industry groups in the manufacturing corporate sector.

Tables 3 (net profit after taxes to total assets) and 4 (net profits after taxes per dollar of sales) show approximately the same relationships discussed above. Textile mill products in 1964 showed substantial increases in the relevant profit ratios over 1963 (36 percent for total assets and 34.8 percent per dollar of sales). These increases did narrow the gap between textile mill products and the other manufacturing industries. In spite of this relative improvement, textile mill products in 1964 ranked 19th (out of 20) in net profits earned on total assets,¹ and 16th (out of 20) in net profits per dollar of sales. In both instances the respective ratios were well below the average for the corporate manufacturing group (70.5 percent and 57.4 percent, respectively).

CONCLUSION

The corporate earnings record for 1964 indicates that the textile mill products group improved its relative position within the corporate manufacturing sector. More significantly it has reduced the wide differential separating this industry group from the profit norms earned by manufacturing industries as a whole and increased its potential to contribute to the continued growth of the American economy.

TABLE 1.—Corporate profits before tax by broad industry group, 1963 and 1964
[Billions of dollars]

	1963	1964	Percent increase
All industries, total.....	50.8	57.4	13.0
Manufacturing.....	26.7	30.9	-----
Durable goods industries.....	14.4	16.7	16.0
Nondurable goods industries.....	12.3	14.3	16.3
Transportation, communications and public utilities.....	8.4	8.9	6.0
All other industries.....	15.7	17.5	11.5

Source: Survey of Current Business, April 1965, U.S. Department of Commerce, table 10, p. 6.

¹ A similar relationship is indicated by the material presented by George J. Stigler's "Capital and Rates of Return in Manufacturing Industries," a study by the National Bureau of Economic Research, New York, 1963. On table A-11, p. 130, for the 1948-57 period, the rates of return on corporate assets for textile mill products (except for 1948) are consistently lower than for total manufactures.

TABLE 2.—Selected relationships of net profits after taxes to stockholders equity for manufacturing corporations by industry group, 1963 and 1964

Industry group (1)	Net profits after taxes to stockholders' equity					Ranking of industry groups based on ratios (col. 2 and col. 3)	
	Ratio		Percentage increase 1964 to 1963 (col. 3 divided by col. 2)	Ratio of industry group to all manufacturing corporation average (percent)			
	1963 (2)	1964 (3)		1963 (4)	1964 (5)	1963 (6)	1963 (7)
All manufacturing corporations, except newspapers.....	10.3	11.6	12.6				
Transportation equipment.....	15.2	15.8	3.9	147.6	136.2	1	1
Electrical machinery, equipment, and supplies.....	10.0	11.2	12.0	97.1	96.6	6	9
Other machinery.....	9.6	12.5	30.2	93.2	107.8	7	6
Other fabricated metal products.....	8.3	10.1	21.7	80.6	87.1	14	13
Primary metal industries.....	7.2	9.2	27.8	70.6	79.3	18	19
Stone, clay, and glass industries.....	8.7	9.6	10.3	84.5	82.8	12	16
Furniture and fixtures.....	8.3	10.1	21.7	80.6	87.1	13	12
Lumber and wood products, except furniture.....	8.2	10.0	22.0	79.6	86.2	15	14
Instruments and related products.....	12.0	14.3	19.2	116.5	123.3	4	3
Miscellaneous manufactures and ordnance.....	8.8	9.5	8.0	85.4	81.9	11	17
Food and kindred products.....	9.0	10.0	11.1	87.4	86.2	10	15
Tobacco manufactures.....	13.4	13.4		130.1	115.5	2	4
Textile mill products.....	6.1	8.5	30.8	59.2	73.3	20	20
Apparel and other finished products.....	7.7	11.7	51.9	74.8	100.9	17	7
Paper and allied products.....	8.1	9.3	14.8	78.6	80.2	16	18
Printing and publishing, except newspapers.....	9.1	12.6	38.5	88.3	108.6	9	5
Chemicals and allied products.....	12.9	14.4	11.6	125.2	124.1	3	2
Petroleum refining and related industries.....	11.3	11.4	0.9	109.7	98.3	5	8
Rubber and miscellaneous plastic products.....	9.2	10.6	15.2	89.3	91.4	8	10
Leather and leather products.....	6.9	10.5	52.2	67.0	90.5	19	11

NOTE.—Stockholders equity consists of capital stock (net of Treasury stock), capital surplus, minority interest, earned surplus and surplus reserves, and reserves not reflected elsewhere.

Net profit after taxes consists of net profits from operations plus other income or deductions (net) less provision for Federal income taxes.

Source: Quarterly Financial Report for Manufacturing Corporations, Federal Trade Commission—Securities and Exchange Commission.

TABLE 3.—Selected relationships of net profits after taxes to total assets for manufacturing corporations by industry group, 1963 and 1964

Industry group	Net profits after taxes to total assets					Ranking of industry groups based on ratios (col. 2 and col. 3)	
	Ratio		Percentage increase 1964 to 1963 (col. 3 divided by col. 2)	Ratio of industry group to all manufacturing corporations average (percent)			
	1963	1964		1963	1964	1963	1964
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All manufacturing corporations, except newspapers-----	6.56	7.39	12.7	-----	-----	-----	-----
Transportation equipment-----	8.75	9.15	4.6	133.4	123.8	2	4
Electrical machinery, equipment, and supplies-----	5.80	6.46	11.4	88.4	87.4	8	9
Other machinery-----	6.09	7.79	27.9	92.8	105.4	6	6
Other fabricated metal products-----	5.21	6.16	18.2	79.4	83.4	12	13
Primary metal industries-----	4.83	6.04	25.1	73.6	81.7	15	15
Stone, clay, and glass industries-----	5.95	6.52	9.6	90.7	88.2	7	8
Furniture and fixtures-----	5.08	6.13	20.7	77.4	82.9	13	14
Lumber and wood products, except furniture-----	4.76	5.77	21.2	72.6	78.1	16	16
Instruments and related products-----	7.89	9.31	18.0	120.3	126.0	5	2
Miscellaneous manufactures and ordnance-----	4.60	5.07	10.2	70.1	68.6	17	20
Food and kindred products-----	5.55	6.17	11.2	84.6	83.5	10	12
Tobacco manufactures-----	8.84	9.19	4.0	134.8	124.4	1	3
Textile mill products-----	3.83	5.21	36.0	58.4	70.5	18	19
Apparel and other finished products-----	3.65	5.63	54.2	55.6	76.2	20	18
Paper and allied products-----	5.43	6.22	14.5	82.8	84.2	11	11
Printing and publishing, except newspaper-----	4.90	6.86	40.0	74.7	92.8	14	17
Chemicals and allied products-----	8.57	9.39	9.6	130.6	127.1	3	1
Petroleum refining and related industries-----	8.30	8.45	1.8	126.5	114.3	4	5
Rubber and miscellaneous plastic products-----	5.58	6.31	13.1	85.1	85.4	9	10
Leather and leather products-----	3.78	5.68	50.3	57.6	76.9	19	17

NOTE.—Net profit after taxes consists of net profits from operations plus other income or deductions (net) less provisions for Federal income taxes.

Source: Quarterly Financial Report for Manufacturing Corporations, Federal Trade Commission—Securities and Exchange Commission.

TABLE 4.—Selected relationships of net profits after taxes per dollar sales for manufacturing corporations by industry group, 1963 and 1964

Industry group (1)	Net profits after taxes per dollar of sales					Ranking of industry groups based on ratios (col. 2 and col. 3)	
	Ratio		Percentage increase 1964 to 1963 (col. 3 divided by col. 2) (4)	Ratio of industry group to all manufacturing corporations average (percent)			
	1963 (2)	1964 (3)		1963 (5)	1964 (6)	1963 (7)	1964 (8)
All manufacturing corporations, except newspapers-----	4.7	5.4	14.9	-----	-----	-----	-----
Transportation equipment-----	5.3	5.5	3.8	112.8	101.9	5	8
Electrical machinery, equipment, and supplies-----	3.8	4.2	10.5	80.9	77.8	10	11
Other machinery-----	4.7	5.8	23.4	100.0	107.4	8	6
Other fabricated metal products-----	3.2	3.7	15.6	68.1	68.5	14	14
Primary metal industries-----	5.0	5.9	18.0	106.4	109.3	6	5
Stone, clay, and glass industries-----	5.0	5.5	10.0	106.4	101.9	7	7
Furniture and fixtures-----	2.3	2.9	26.1	48.9	53.7	18	17
Lumber and wood products, except furniture---	3.2	3.9	21.9	68.1	72.2	13	13
Instruments and related products-----	6.0	7.1	18.3	127.7	131.5	3	3
Miscellaneous manufactures and ordnance-----	3.3	3.5	6.1	70.2	64.8	12	15
Food and kindred products-----	2.4	2.6	8.3	51.1	48.1	16	19
Tobacco manufactures-----	5.9	5.9	-----	125.5	125.5	4	4
Textile mill products-----	2.3	3.1	34.8	48.9	57.4	17	16
Apparel and other finished products-----	1.4	2.1	50.0	29.8	38.9	20	20
Paper and allied products-----	4.5	5.1	13.3	95.7	94.4	9	9
Printing and publishing, except newspapers---	3.2	4.3	34.4	74.4	79.6	15	10
Chemicals and allied products-----	7.5	7.9	5.3	159.6	146.3	2	2
Petroleum refining and related industries-----	10.5	10.7	1.9	223.4	198.1	1	1
Rubber and miscellaneous plastic products-----	3.6	4.1	13.9	76.6	75.9	11	12
Leather and leather products-----	1.8	2.6	44.4	38.3	48.1	19	18

NOTE.—Sales are net of returns, allowances and discounts.
Net profit after taxes consists of net profits from operations plus other income or deductions (net) less provision for Federal income taxes.
Source: Quarterly Financial Report for Manufacturing Corporations, Federal Trade Commission—Securities and Exchange Commission.

The CHAIRMAN. All right.

Now, Mr. Cheatham, you stated that the increase in consumption of cotton during the current year is 800,000 bales.

Mr. CHEATHAM. Yes, sir.

The CHAIRMAN. To what extent did the textile mills reduce their use of manmade fibers?

Mr. CHEATHAM. Sir, I think the figures indicate that there was no reduction in mademade fibers.

The CHAIRMAN. So that this cheaper cotton didn't have any effect in the reduction of manmade fibers?

Mr. CHEATHAM. If you consider the man makes as a group, sir, I think your statement is correct.

However, the fiber that competes most with cotton, spun rayon, staple fiber, viscose, the gain that it had been making was severely halted.

The CHAIRMAN. That is because of the cost factor?

Mr. CHEATHAM. Yes, sir; that is a fiber that competes more nearly with cotton. The increases, I think you speak of are in polyesters and nylons that range in price two or three times the price of cotton.

The CHAIRMAN. Now, I can well remember when the two-price system was advocated it was said that it would have the effect of having mills veer away from the use of manmade fibers and would substitute cotton therefor.

Mr. CHEATHAM. There were some who went back to cotton, sir. There were a number of them, we had one mill that we had planned to go on viscose, but we held off on it, we made samples, we made samples to the trade, we thought it was a good investment and cheaper than cotton and we were prepared to go on it but we held off on it to see what happened to this bill, consequently that mill is a hundred percent cotton. In my opinion if the bill had not been passed it would have been on rayon.

There is quite a bit of that going on, sir.

The CHAIRMAN. Well, now, are you satisfied with the statement made a while ago by some gentleman here that the consumer of cotton goods did get a benefit by this reduction?

Mr. CHEATHAM. Yes, sir; I certainly am, and the chart so indicates, if you consider all textile mill products, they have gotten a reduction, sir.

The CHAIRMAN. Well, the the evidence so far presented to this committee by the Department as well as others is that there has been no benefit to the consumer to amount to anything.

As a matter of fact, I have a lot of letters from users of cotton bags and things like that who stated instead of decreasing the price it went up, notwithstanding the fact that the mills were indirectly subsidized to the tune of \$32.50 a bale. I believe that is the figure; is it not?

Mr. CHEATHAM. Yes, sir.

Senator, some have gone up, of course, that has been mostly in the very lightweight goods where cotton is not a contributing factor cost-wise. There have been substantial reductions in many items, particularly in the area of work clothing apparel and so forth.

But if you put them all together, as this chart would indicate, we are less than 100 now against the 1957-59 base.

The CHAIRMAN. I have charts here that I am going to put into the record at the proper place and time, and they do show that textiles have gone up instead of down. As I stated a moment ago, I am going to have the Department review all of the charts that I am putting in as well as the ones that the cotton industry is going to put in, and then recall them to try to get to the bottom of the problem to find out really and truly how this program has operated.

Now, what do you figure the total amount of this indirect subsidy to the textile mills amounted to during the current year?

Mr. CHEATHAM. Well, sir, on a 9.4 million bale consumption at \$32.5 million, that is \$305,500,000, I believe.

The CHAIRMAN. Heretofore this amount—that is, the difference between the support price and the world price—was absorbed by the cotton textile manufacturers and in turn passed on to the public.

That is a fact, is it not?

Mr. CHEATHAM. Well, yes, sir; but it hadn't all been passed on. No, sir; we don't contend that.

The CHAIRMAN. Your answer is "Yes"? Well, somebody had to pay for it.

Mr. CHEATHAM. Sir?

The CHAIRMAN. Somebody had to pay for it.

Mr. CHEATHAM. Well, we have——

The CHAIRMAN. Prior to this law that is now on the statute books, you bought most of your cotton, in fact, practically all of your cotton at prices that sold in this country?

Mr. CHEATHAM. Yes, sir.

The CHAIRMAN. Which were?

Mr. CHEATHAM. Eight and a half cents more than the export.

The CHAIRMAN. More or less a support price.

Mr. CHEATHAM. Yes, sir.

The CHAIRMAN. Are there any other questions?

Senator BASS. On the wage increase——

Mr. CHEATHAM. Yes, sir, Senator.

Senator BASS (continuing). Over the last 18 months, has there been an increase in minimum wage, basic minimum wage, since these figures; or is such included in your figures?

Mr. CHEATHAM. You mean the Federal? It is still \$1.25; no, sir. The mills are operating at considerably higher than the minimum.

Senator BASS. You mentioned your income and so forth compared to other industries. What is the general differential in prices paid in textiles with other manufacturing industries in the country?

Mr. CHEATHAM. Consumer prices?

Senator BASS. No; wages.

Mr. CHEATHAM. Wages. Well, it is anticipated that this recent wage increase will put our hourly earnings somewhere in the \$1.90 to \$1.94 average.

Senator BASS. Countrywide.

Mr. CHEATHAM. Against all manufacturing, approximately \$2.58, I believe.

Senator BASS. Yes; compared with about \$1.95.

Mr. CHEATHAM. Yes, sir.

Senator BASS. At a recent increase in your own wages then?

Mr. CHEATHAM. Yes, sir.

Senator BASS. Now, the question I want to get to now, What percent of the cost of, we will say, this shirt I am wearing, would be labor and how much would be raw material.

Mr. CHEATHAM. Well, sir; we are not in the apparel business and that question would be difficult for me to answer, but——

Senator JORDAN. About a dime's worth of cotton in a shirt; 10, 11, 12 cents.

Mr. JACKSON. It would be three-quarters of a yard, I would think.

Senator JORDAN. I am talking about the cotton that is in there. I am not talking about the weaving.

Senator BASS. I am talking about the raw material itself.

Senator JORDAN. About 10 cents' worth.

Senator BASS. About 10 cents' worth. The rest of it would be labor, profits, transportation.

Mr. JACKSON. Distribution.

Senator BASS. The price of cotton then in the basic cost of the material is not really a great factor as far as the consumer is concerned, is it?

Mr. CHEATHAM. In many areas it is. On work clothing which use heavy goods like twills, sateens, corduroys, it is a factor, and it takes all of these to get cotton consumption up.

Senator BASS. There would have to be a tremendous differential in the price of the raw material then before it would really be realized to any great degree at the consumer level.

Mr. JACKSON. Senator, if I may comment on that, the situation would vary widely, of course, according to the type of end use that we are speaking of. In shirts, for example, obviously the cotton cost content is much more insignificant than it would be in a tarpaulin, for example, to cover a truck, or in sheeting for bags or in heavy work clothing, corduroy, drills, and twills.

So, it varies very widely, but the point of the—a very important consideration, though, from the standpoint of cotton, is that cotton's first point of competition is back here at the textile mill door where the mill itself that is spinning the yarn and making the gray fabric is determining whether it is advisable to spin cotton or to spin some competitive fiber because at his stage of the game where he is selling yarn or selling gray fabric, then the cotton cost content becomes very significant.

As it moves on from that point forward, then practically everything else that is done to it is labor, as it moves through the finishing processes, as it moves on into fabrication of end use items, it is added labor at that point and distribution costs.

But back at the initial stage, you see where the textile mill itself has to be involved, the cotton cost factor is much higher. Actually, over a period of a good many years the cotton cost factor for the average gray cloth construction has ranged in the neighborhood of 50–55 percent of the selling price of the goods.

Senator BASS. When you say gray you mean before it goes to the bleachery?

Mr. JACKSON. Yes, sir; you see the basic products of the textile industry that buy the farmers' cotton and spin it and weave it is gray cloth. They spin it into yarn, they weave or knit it into fabric.

Senator BASS. After it leaves there then the price of the cotton is not a real big factor?

Mr. JACKSON. It becomes increasingly less important as more labor is added to it.

Senator BASS. Thank you.

That is all.

The CHAIRMAN. To what extent has competition among the textile mills been affected by this one-price system?

Mr. CHEATHAM. I don't quite follow you, sir.

The CHAIRMAN. You don't?

Mr. CHEATHAM. No, sir.

The CHAIRMAN. I have always contended that whether cotton is 5 cents a pound, 10 cents a pound, 40 cents a pound, or a dollar a pound, the competition among mills in the United States would be the same.

Mr. CHEATHAM. It is highly competitive; yes, sir.

The CHAIRMAN. Yes, sir.

Because you sell 96 percent of your product to the best market in the world, that is the American people.

Mr. CHEATHAM. Yes, sir.

The CHAIRMAN. I can't for the life of me see how we can continue having this one-price system and permit cotton growers to go on as they now are, because the cost to the taxpayers will be so great. Particularly if there is insistence that the acreage remain as is, and production is greater. There will come a time when there will be a revolt somewhere by those who have to pay for this and that is what I fear, Mr. Cheatham.

Mr. CHEATHAM. Yes, sir; but referring to your statement about we have got a market, 96 percent in this country, we certainly don't call that a captive, Senator. We are in competition every day with all sorts of substitutes, plastics and paper and all sorts of nonwoven things.

The CHAIRMAN. Within the United States?

Mr. CHEATHAM. Yes, sir.

But we are going for that cost-conscious piece of goods.

Now, at one time, Senator, we thought we had a captive market in cotton tire cord, and I think the record of statistics will show we used over a million bales at one time in cotton tire cord. Well, there is practically none used today. We lost that first to rayon and now I understand they lost it to nylon.

Senator BASS. Automobile tire cord?

Mr. CHEATHAM. Yes, sir. We had a so-called captive market in making cotton bags, sacks for feed and for grain and for cement. That market all went to paper first. Thirty-seven-inch foulard used to be a big item with the midwestern millers, who packed in 50- and 100-pound bags, then it went to multiwall paper, and the bakers, I understand, are buying flour in gondola type boxcars and no type of bag is used, and we certainly don't have a captive market, and our customers are certainly cost-conscious. We can lose a big piece of business for an eighth of a cent a yard.

Senator BASS. What about the market now for finished goods?

Mr. CHEATHAM. It is declining—has declined; it has been declining.

Senator BASS. Has it declined appreciably since this new cotton legislation, the one price?

The CHAIRMAN. I have figures here, if you don't. I was going to follow that up. In 1962-63, the exports in thousand bales, 436,000; 1963-64, 466,000; and in 1964-65, it is estimated at 362,000, so there has been a decline in your exports, whereas your imports have increased some: 1962-63 is was 656,000 bales, and in 1963-64, 601,000 bales, and then this year it is—has gone up to 673,000 bales.

Senator MILLER. Would the Senator yield at that point?

Those are bales.

The CHAIRMAN. Yes.

Senator MILLER. I believe the Senator from Tennessee was asking about finished goods.

The CHAIRMAN. That is the only way you can figure it by bales; that is the only way the statistics come.

Senator MILLER. Is that reduced to bales?

Mr. JACKSON. We also have the figures in yards. Actually, there are two or three factors involved in this exporting picture. To begin with, the trend of cotton textile exports has been down all the way back to the end of the period at the end of World War II.

At that time, we wound up with a billion and a half yards of exports annually. We have had a steady decline ever since. The reason is the buildup of textile industries abroad; after the war, the facilities abroad were relatively limited.

Today, practically every country, as it improves its economy, all of the emerging nations, one of the first things they want is a textile industry, so, in the first place, they lose identity as export customers, and in the next place they want to start exporting, exporting goods in order to buy cotton. In many instances they are subsidized by their governments to export textile products.

So the trend is down really, Senator, and I don't think the law last year affected it one way or the other.

We are doing everything we can to stimulate exports; we have an expanded program this year.

Senator BASS. What has happened to our imports of raw cotton?

Mr. JACKSON. We don't import any raw cotton at all except a small amount of upland and some Extra Long Staple—which is a special situation—but that accounts for only 2 percent.

Senator BASS. For fabricating purposes?

Mr. JACKSON. We are only permitted to import about 29,000 bales annually of upland types, which is only about 1 day's supply. Otherwise, we have a complete embargo on imports of cotton and have had it for nearly 30 years.

The CHAIRMAN. Mr. Cheatham, I would like to have your comment on some of these figures furnished to us by the Department on the price of the average of 20 constructions.

In May of 1963 the average was 61.29. In April of 1965 it was 63.89, and in May of 1965 it was 64.65, which indicates a considerable increase. I would like to get your ideas on that.

Mr. CHEATHAM. Well, Mr. Chairman, the figures—

The CHAIRMAN. Because the figures that you gave here disprove this. Who is right is what I want to find out.

Mr. CHEATHAM. Mr. Chairman, there is an explanation to the figures you are using and the figures we are using and the ones you have stated are correct.

The CHAIRMAN. And yours are also correct?

Mr. CHEATHAM. Yes, sir.

The CHAIRMAN. Well, there is somebody using a sharper pencil than the other fellow.

Senator JORDAN. I think you will find it in the selection of the items they report. There is a very wide differential in the cost factors.

The CHAIRMAN. I am going to put those figures in the record at some place so as to compare them with what you put in, and as I said, I am going to have our economist as well as the Department of Agriculture come up here, and we are going to find out where the bugs are, if any there be.

Mr. CHEATHAM. Senator, there is an explanation and with your permission I would like to try to give it to you.

The CHAIRMAN. Proceed.

Mr. CHEATHAM. The figures you referred to are the so-called 20 construction cloth series figure that the Department of Agriculture has been using since 1925. I will admit they made revisions in them, the last revision was in 1961. But I have a list of them here, the same figures you are referring to. They have a number of constructions, cloth styles, that are outmoded, that are hardly used today.

In fact, on a number of them the Census Bureau does not publish looms operating because they are such a small percentage that it is negligible or that it is only one or two mills making it and they don't want to disclose their identity.

For instance, one of the numbers in the 20 is a 40-inch, 2.85 sheeting that 30 years ago was a big number in wearing apparel, now today nobody uses 2.85 yard sheeting.

There is only a handful——

The CHAIRMAN. You don't mean wear, you mean use.

Mr. CHEATHAM. Use it or wear it or anything. The production of it, Senator, has dropped to, I believe the figure was 459 looms.

The CHAIRMAN. I am informed that in the study that you submitted to the committee by Mr. Ehrman last year was based on the figures that you obtained from the Department of Agriculture.

Mr. CHEATHAM. That is correct, sir.

The CHAIRMAN. If they were good then, why aren't they good now?

Mr. CHEATHAM. We didn't say they were good. I think if you will recall, that was a study——

The CHAIRMAN. The study then was absolutely worth nothing, if that is true.

Mr. CHEATHAM. No, sir.

Mr. Jackson made it, if you will let him answer it. [Laughter.]

Mr. JACKSON. Senator——

The CHAIRMAN. Are you an economist?

Mr. JACKSON. No, sir, I am not.

The CHAIRMAN. All right, go ahead.

Mr. JACKSON. But we have got one here. I would be glad to put him on.

Seriously we do have our economist here.

The CHAIRMAN. I would rather hear you. You give economists a set of figures and they can do almost anything with them. [Laughter.]

Mr. JACKSON. Let me try to answer that.

The CHAIRMAN. Something I can't understand, though, is for you to have used the figures from the Department of Agriculture to make your study last year, upon which your case was based, and now you say, why it doesn't apply. I just can't see that.

Mr. JACKSON. Senator, let me try to give you a layman's explanation of it. This series that the Department of Agriculture keeps, this 20 constructions.

The CHAIRMAN. Yes.

Mr. JACKSON. Has been kept for a very long period of time. It is the only index so far as we know that goes back over all of that period.

Last year we wanted to try to get a correlation between the cotton cost to a mill and the selling price of gray fabric.

Now, this study which extends back over a period of all of these years—most of that time the constructions that were in this represented a very substantial portion of the domestic production of gray goods. I think that the case is completely valid, I think that if you would designate a panel of economists they would go completely along with the study that was made last year, that it is a valid index on the correlation of cotton costs as related to selling prices of gray goods.

Now, it was never contended in the study, and it is not contended now that every specific month which this index does, that there is a direct relationship in any given month between cotton costs and cloth prices because the supply and demand factor takes over.

Now, what Mr. Cheatham is saying now is that as of today, if you try to measure precisely at any given time cotton costs as related to cloth prices using this index alone, it isn't necessarily an accurate reflection of cotton cost alone, I mean of cotton cloth prices alone.

The CHAIRMAN. I don't want to belabor the point, but the statistics that I am going to put in the record indicate an increase in specific articles such as the T-shirt.

Mr. JACKSON. Yes, I am sure that is correct.

The CHAIRMAN. That is what I had in mind.

Mr. JACKSON. Yes, sir.

The CHAIRMAN. It is not so much the price of gray cloth as you say.

Mr. JACKSON. Except that is what our mills make, Senator.

The CHAIRMAN. I understand that. But you let Worth Street dictate a lot. Of course, you probably are at their mercy.

Like the farmers are in selling at markets, you see. You know, vegetables and so forth. I have had a lot of experience in that myself.

But it is strange to me because I have looked into quite a few of these specific apparel items that are used every day and notwithstanding the fact that you had this cut in the price of cotton of 8.5 cents per pound, it was not passed on to the consumer as was alleged by those who proposed this bill and by the Secretary of Commerce, Mr. Hodges.

Any further questions?

Mr. CHEATHAM. Mr. Chairman, if I would just add to that, if you would let me go back to those 20 constructions, I didn't make myself clear.

My point is that it is so small a sampling of it by virtue of the fact that there is so little of a number of these constructions made it is not indicative or not representative of the whole market.

For instance, those figures you are referring to leave out the entire cotton sales yarn production. I think that is in the neighborhood of roughly 2 million bales annual consumption of sales yarn.

Yet the prices of yarn which are down substantially are not reflected in your figures.

The CHAIRMAN. They are not mine, those are the Department's and the ones you used last year.

Mr. CHEATHAM. Yes, sir, also there are a lot of other fabrics, sateens, denims, poplins, outing flannels, corduroys, it just so happens that our company manufactures the last two, outing flannels and corduroys and the looms reported on those two fabrics, corduroy and outing flannels combined, are I believe more than the whole 20 constructions and both of those show substantial cost reduction.

As a matter of fact, the standard corduroy today for women's and children's wear is 46-inch, 84 by 181 pinwale corduroy they call it.

The first quarter last year it was selling at 45 cents a yard, the first quarter this year was 41 $\frac{3}{4}$, a difference of 3 $\frac{1}{4}$ cents a yard reduction and that is almost 6 cents a pound.

Taking into account the wage increases and the other cost increases we have had, we are worse off today at 41 $\frac{3}{4}$ than we were at 45 cents last year.

Now, you mentioned consumer products, the fact that the savings hadn't been passed along. In the first place we can't control what our customers charge for their goods. In many instances they have had to raise their ideal markup, they have higher rents.

The CHAIRMAN. I realize all of that.

But the statements that were made by those who proposed this, probably had a lot to do with Members of Congress voting for it.

Mr. CHEATHAM. Yes, sir.

Well, they were said in good faith, sir.

The CHAIRMAN. I presume that you want to keep the textile mills happy, the cotton grower happy and the taxpayers happy.

Mr. CHEATHAM. Yes.

The CHAIRMAN. Have you any proposal to give us that would carry that out?

Mr. CHEATHAM. Just renew this present legislation in some form.

The CHAIRMAN. All right.

Anything else?

Mr. CHEATHAM. Just one more, may I add one more thing, sir.

The CHAIRMAN. You mean renew this present law, just extend it?

Mr. CHEATHAM. No, sir; we are not advocating any particular approach. That is not our prerogative, sir.

But we are saying that one-price cotton is essential if this industry isn't going down the drain.

The CHAIRMAN. Well, I heard that 20 years ago when I first came here.

Mr. CHEATHAM. Senator, the figures show it.

The CHAIRMAN. I understand. I know that. I understand that. But I have heard it all throughout.

Senator JORDAN. If you had a little stock in it you would have found out.

The CHAIRMAN. I have been here 28 years and it has been a calamity every time we have had hearings on cotton. We have had almost the same story, not only on cotton, of course, but on all commodities. What this committee is going to do, I don't know. But we ought to have quite a bit of evidence presented to substantiate a change so that we can carry out what you say should be done. We should have the continuous production of cotton and keep the farmers happy, and the only way to do that, of course, is to make it so that they will make a good living at it. Then keep the taxpayers happy and that is a pretty big order. That is what we have got to do around this table on this committee.

Mr. JACKSON. Senator, may I make one comment in that regard?

The CHAIRMAN. All right.

Mr. JACKSON. What we have tried to show here today is that while this program has not performed in some respects as was anticipated, admittedly the costs have been considerably higher than were estimated last year.

The CHAIRMAN. Twice as high.

Mr. JACKSON. Yes, sir.

But those costs are completely unrelated to the one-price feature of the program, that part of it didn't cost a bit more than what was anticipated. We anticipated that the payments would be 8½ cents not 6½ cents for the interim period, as they were and that they would be 6½ after August 1, 1964, and they have been that. So that all that can be charged to the one-price feature is that portion of the program cost less the textile export subsidy, which would have been paid otherwise.

Also, I think we have to think about this: that these increases in cotton production which occurred last year and the decrease in exports, those factors which were primarily responsible for making this program cost twice as much as was anticipated, could have happened under the existing law just as well as under this, and had we not had this law with its offtake, I mean had we not had a one-price system with its offtake of an additional 800,000 bales and we think very substantially more than that because we think the trend was going the other way and would have continued to go down that we would have had much less consumption actually, that when you add these factors together it means that cotton, too would have gone into Commodity Credit stocks.

It would have added additional cost to the program, and the cotton would have either stayed there at \$150 a bale that Commodity Credit itself put into it or eventually would have had to be sold at export at the lower price anyway.

So, what we are really saying is that the one feature of this program that has really worked as anticipated is the domestic part of it.

Now, admittedly our prices have not gone down as much as we thought they would go down on cotton textile products. The reason is that we have just had a much better market, a stronger market all the way through than any of us anticipated.

The CHAIRMAN. Greater demand?

Mr. JACKSON. Yes, sir.

The demand is good and it continues good and yet the price structure is holding reasonably firm, and that is good for cotton, I mean it is just that it makes sense—it is a lot better—for cotton and for the future of cotton to have it move through an industry that is strong and virile and that is making some profits and plowing those profits back into expanded production facilities than through an industry that is weak and today, Senator, we would take you down—and we would give anything if we had the opportunities to take you and some of your committee down—in the textile areas and show you more new textile mills that are either in the process of completion or just completed or being built than at any time, I suppose, in the history of this industry.

The CHAIRMAN. That would have happened to some extent even though the law last year hadn't passed because you have got some mills there that were constructed in the year one. You had to do something to compete, and that is where the competition comes in.

As I said last year it matters not if cotton sells for a dollar a pound or 2 cents a pound. You would have the same kind of competition among the textile mills of this country as you have irrespective of the price, and of course, those who want to remain in the business are bound to improve their machines, they are bound to get new machines otherwise they will go out of business, sure enough.

Mr. JACKSON. Right.

But the thing is that so much of it is going into cotton equipment, Senator, new cotton mills, 100-percent cotton mills.

The CHAIRMAN. You can convert as soon as——

Mr. JACKSON. We can convert them later.

The CHAIRMAN. Sure.

Mr. JACKSON. But they are going essentially into cotton-producing facilities.

The CHAIRMAN. Thank you very much, sir.

Mr. Ransom, now we will hear from a producer and see what he says.

Senator MILLER. I just want to ask a question for the record, if I may.

I would like to ask you to what extent do you attribute these new plants to the bill that which passed last year as distinguished from the change in the income taxes?

Mr. JACKSON. Well, I would say that it is certainly a combination of several factors. In the first place, we have new depreciation schedules which for the first time give us reasonable depreciation on textile machinery.

So that has been a very important factor.

The decrease in income tax obviously has stimulated the whole economy and certainly we think that it has stimulated textile consumption more than anybody anticipated but I don't think——

Senator MILLER. What about the investment tax credit?

Mr. JACKSON. The investment tax credit we think has been a very important consideration. We know it has for our industry.

Senator MILLER. Would it be fair to say that because of the tax angles that all of these developments occurred as distinguished from the cotton bill that we passed last year?

Mr. JACKSON. No, sir. All of these, I was about to say, all of these things are contributing, certainly they are, but so far as investments in cotton are concerned, this industry became convinced or a lot of individuals within it, about a year ago that something was going to be done on this cotton thing and a lot of plans that had been on the drawing boards actually for years, had been in stages of development, mill management decided to go ahead and I could put you in touch with different companies who could describe to you their individual experiences as to how they arrived at their decision to go ahead and without question this cotton legislation was a highly important factor.

Senator MILLER. Would you have done it without the tax angles?

Mr. JACKSON. Certainly we wouldn't have the scope of expansion we have gotten without it.

Senator MILLER. Thank you.

The CHAIRMAN. Thank you.

Without objection I would like to place in the record at this point copies of the tables to which I have been referring earlier.

Table I, which shows unfinished cloth prices, cotton prices, and mill margins 1960 through May of 1965.

Table II, which shows the wholesale price indexes for selected cotton items which compares the index of March 1963, 1964, and 1965.

Table III which shows the upland cotton estimates for basic data for the 1964 crop of cotton.

Table IV, which shows the daily rate of mill consumption of man-made fibers.

Table V which shows the daily rate of mill consumption of upland cotton.

Table VI, which shows the percent change in the mill consumption of fibers on a daily rate.

Table VII, which shows the mill consumption of raw upland cotton and cotton textile exports in bale equivalents.

Table VIII, which shows textile exports as a percent of domestic mill consumption.

Table IX, which shows both exports and imports on a bale equivalent basis.

Table X, which shows the consumption and percentage of cotton, wool, and manmade fibers used in a number of countries from 1952 on.

Table XI which shows the acreage of cotton in specified countries.

Table XII, which shows the production in specified countries.

Table XIII, which shows the yields in specified countries.

Table XIV, which shows the exports from specified countries.

Table XV, which shows mill consumption of upland cotton and man-made fibers.

(The tables follow:)

TABLE I.—Unfinished cloth prices, cotton prices, and mill margins, 1960–64
[In cents]

CLOTH PRICES 20 CONSTRUCTIONS ¹

Year beginning Aug. 1	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Average
1960-----	62.86	61.90	60.64	59.98	58.61	58.06	57.78	57.64	57.46	57.54	57.60	57.88	59.00
1961-----	58.78	59.78	60.32	60.45	60.54	60.63	60.76	61.07	61.23	61.19	61.24	61.29	60.61
1962-----	61.12	60.93	60.71	60.68	60.67	60.55	60.47	60.49	60.26	60.00	60.11	60.28	60.52
1963-----	60.60	60.99	61.34	62.00	62.29	62.32	62.37	62.45	62.00	61.62	60.87	60.95	61.65
1964-----	61.00	61.02	61.25	61.48	62.58	63.24	63.28	63.42	63.89	64.65	-----	-----	-----

RAW COTTON PRICES ²

1960-----	32.52	32.25	32.05	31.99	32.00	32.01	32.41	33.32	33.46	33.86	34.09	34.45	32.87
1961-----	34.84	35.16	35.35	35.46	35.58	35.78	35.82	35.98	35.85	36.13	36.34	36.19	35.71
1962-----	35.89	35.23	35.08	35.10	35.30	35.45	35.66	35.95	36.08	36.16	35.86	35.57	35.61
1963-----	35.33	35.19	35.11	35.27	35.37	35.47	35.55	35.58	35.63	35.67	35.76	35.60	35.46
1964-----	27.64	26.82	26.80	26.98	27.30	27.30	27.26	27.26	27.40	27.35	-----	-----	-----

MILL MARGINS ³

1960-----	30.34	29.65	28.59	27.99	26.61	26.05	25.37	24.32	24.00	23.68	23.51	23.43	26.13
1961-----	23.94	24.62	24.97	24.99	24.96	24.85	24.94	25.09	25.38	25.06	24.90	25.10	24.90
1962-----	25.23	25.70	25.63	25.58	25.37	25.10	24.81	24.54	24.18	23.84	24.25	24.71	24.91
1963-----	25.27	25.80	26.23	26.73	26.92	26.85	26.82	26.87	26.37	25.95	25.11	25.35	26.19
1964-----	33.36	34.20	34.45	34.50	35.28	35.94	36.02	36.16	36.49	37.30	-----	-----	-----

¹ The estimated value of cloth obtainable from a pound of cotton with adjustments for salable waste.
² Cotton prices reflect prices for the average quality of cotton used in the 20 constructions. Beginning August 1964, prices are for cotton after equilization payments of 6.5 cents per pound have been made.
³ Difference between cloth prices and prices for the average qualities of cotton used in the 20 constructions.

Source: U.S. Department of Agriculture, Consumer and Marketing Service, Cotton Division.

TABLE II.—Wholesale price indexes for selected cotton items (1957-59=100),
March 1963, 1964, 1965¹

Item	March 1965 ²	March 1964	March 1963
Raw cotton, spot market.....	90.8	98.7	100.5
Cotton products.....	99.6	101.1	100.2
Cotton yarns.....	92.3	98.6	97.5
Carded, W, 10/1.....	90.9	99.6	98.6
Carded, W, 20/2.....	92.4	98.2	96.4
Carded, K, 20/1.....	90.9	98.6	97.0
Carded, K, 30/1.....	92.8	98.7	97.8
Combed, W, 40/2.....	94.2	98.6	98.4
Combed, K, 36/2.....	94.5	98.9	97.8
Combed, K, 30/1.....	90.5	97.1	96.2
Finished broadwoven.....	96.5	97.7	97.1
Fabric except mill finish:			
Percale, 64 by 60.....	117.5	109.6	104.1
Percale, print, w & w ³	106.5	102.8	102.8
Broadcloth, combed.....	82.5	84.8	83.2
Twill, combed, 36 inches.....	97.0	100.1	100.9
Shirting, combed.....	94.2	97.4	99.3
Corduroy, carded.....	93.2	98.6	102.9
Twill, carded, uniform.....	91.9	96.4	99.8
Sateen, carded, w & w ⁴	88.2	91.1	88.7
Cotton broadwoven.....	103.2	104.0	102.3
Grey fabrics:			
Sheeting, class A.....	109.5	113.2	109.5
Sheeting, class B, 3.75 yards per pound.....	107.1	108.6	104.1
Sheeting, class C.....	108.0	106.6	102.6
Osnaburg.....	107.7	112.1	112.1
Industrial sheeting.....	99.6	96.5	95.5
Drill.....	107.1	107.1	106.1
Twill, carded, 4 leaf.....	99.4	106.1	106.9
Tobacco cloth.....	101.1	102.2	101.1
Print cloth, 78 by 78 ⁴	85.9	81.5	79.3
Print cloth, 68 by 72.....	113.2	106.9	98.3
Broadcloth, carded, 98 by 56.....	104.5	100.4	99.1
Broadcloth, carded, 78 by 54.....	114.5	103.2	98.3
Window shade cloth.....	98.0	104.9	103.7
Lawn, combed, 40 inches.....	115.1	91.6	89.1
Broadcloth, combed, 47 inches.....	95.1	95.5	92.7
Sateen, combed ³	78.9	85.9	94.9
Barkcloth.....	106.7	112.9	101.5
Denim, mill finished.....	96.3	104.4	105.2
Bed ticking, mill finished.....	107.8	108.1	106.2
Gingham, combed, mill finished.....	94.2	95.5	100.4
Outing flannel, mill finished.....	97.1	101.0	98.9
Canton flannel, mill finished.....	102.6	111.4	109.4
Flat duck.....	105.8	112.6	111.5
Army duck.....	103.8	106.9	104.3
Numbered duck.....	110.9	118.0	113.9
Zipper tape.....	82.5	82.5	82.5
Thread, home use, size 40.....	125.2	122.3	131.8
Thread, industrial, size 70.....	105.0	104.4	104.4
Thread, industrial, size 40.....	101.8	101.8	101.8
Cotton house furnishings.....	102.8	103.4	103.2
Sheets, type 128.....	105.3	105.3	103.6
Sheets, type 180 ⁴	106.8	106.8	104.7
Pillow cases.....	110.9	110.9	107.4
Towels.....	97.9	99.1	102.9
Toweling.....	104.4	107.8	107.0
Blanket.....	104.4	104.5	103.5
Bedspread, jac. weave.....	97.7	97.7	97.7
Cotton apparel.....	103.1	102.3	101.4
Housedress, women's.....	101.4	101.4	101.4
Nightgown, women's.....	101.7	101.7	101.7
Hosiery, women's.....	99.0	99.0	99.0
Shirts, men's, popular quality.....	103.4	105.2	103.0
Work trousers, men's, twill.....	102.8	102.9	102.9
T-shirt, men's, knit.....	104.2	104.3	104.1
Polo shirt, men's.....	100.0	100.0	98.9
Shirt, boy's.....	114.8	114.7	113.0
Dungarees, boy's.....	105.2	105.8	105.8
Polo shirt, boy's.....	133.1	132.7	131.5
Dress, girl's, popular quality.....	99.7	99.7	99.7
Dress, girl's, medium quality.....	104.8	104.8	104.8
Blouse, girl's.....	100.0	100.0	100.0
Slip, girl's.....	101.5	101.5	101.5
Sleeping garment, children's.....	115.3	114.1	113.4
Hosiery, children's.....	96.1	96.1	96.1

¹ Compiled from BLS data by Fibers and Grains Branch, ERS.² Last month is preliminary.³ January 1961=100.⁴ January 1960=100.

Source: Commodity Analysis Branch, E & G.A.O.

TABLE III.—Comments relating to the estimates of February 19, 1964, for H.R. 6196, as amended by the Senate committee and the latest estimates of 1964-65 fiscal year expenditures for cotton

The late enactment of the legislation (after planting was already underway) caused the 1964 planted acreage to exceed earlier estimates. The record high yields on this acreage, together with lower exports and domestic consumption, caused the carryover to increase over a million bales instead of decreasing 2.1 million bales as previously estimated. This caused a sharp increase in CCC's price support expenditures.

The estimates of February 19, 1964, were only for the 1964 program, and, as noted on the estimates, they did not include the "one-time" transition expenditures for payments on cotton in inventory or other expenditures incurred this fiscal year in completing the 1963 program. These expenditures, together with advance payments made on the 1965 domestic allotment program, are about \$150 million and are as follows:

- (1) Export subsidies on 1963 program paid this fiscal year, \$17 million;
- (2) Interim payments paid this fiscal year on cotton consumed prior to August 1, 1964, \$25 million;
- (3) Equalization payments on cotton in inventory but which will not be exported or consumed during the 1964 marketing year, \$91 million; and
- (4) Advance domestic allotment payments on the 1965 crop, \$17 million.

Upland cotton—Estimates of basic data for various programs

Item	(1) H.R. 6196, 1964 crop (Feb. 19, 1964) ¹	(2) Senator Ellender's proposal of Feb. 17, 1964	(3) 1964 crop, latest esti- mate (April 1965 outlook)
Acreage:			
Allotted.....	16,200,000	16,200,000	16,200,000
Soil bank—conservation reserve.....	413,000	413,000	413,000
Planted.....	12,650,000	14,800,000	14,729,000
Harvested.....	12,150,000	14,200,000	13,953,000
Yield: Pound per acre harvested.....	508	480	517
Domestic allotment.....acres.....	10,800,000		10,766,000
Supply and utilization (bales):			
Production.....	12,850,000	14,200,000	15,031,000
Beginning stocks (including preseason ginning).....	12,850,000	12,850,000	12,125,000
Imports and city crop.....	100,000	100,000	100,000
Domestic disappearance.....	9,600,000	9,000,000	9,300,000
Exports.....	5,000,000	5,000,000	4,500,000
Ending stocks.....	11,200,000	13,150,000	13,450,000
Support price per pound (middling 1-in.).....cents.....	30.0	30.0	30.0
Support price per pound (average of crop).....do.....	29.25	29.25	29.3
Domestic allotment payment rate.....do.....	3.5	² 2.47	3.5
Effective price—domestic (average of crop).....do.....	23.0	³ 29.5	23.0
Effective price—export (average of crop).....do.....	23.0	23.0	23.0
PIK rate per pound.....do.....	6.5	6.5	6.5
Export (in millions):			
Producer payments on domestic allotment acreage.....	\$102	\$45	\$40
Farm value of production.....	1,895	2,094	2,250
Total of production, payments, and savings.....	1,997	2,139	2,290

¹ Estimates made on Feb. 19, 1964, on the assumption H.R. 6196 would be enacted in time to reduce the 1964 planted acreage of cotton.

² On 1st 10 bales.

³ Any mill which increased its consumption by 20 percent for 2 years would be able to obtain its cotton at an average of 1.5 cents per pound less ($20\% \div 120\% \times 9\text{¢}$).

Upland cotton—Comparison of estimated expenditures for various programs, 1964-65

[Dollars in millions]

Item	(1) H.R. 6196 as amended by the Senate committee	(2) Senator Ellender's proposal of Feb. 17, 1964	(3) April 1965 outlook
Major items of receipts or expenditures:			
Loans made-----	-\$405	-\$1,047	-\$1,087.5
Loans repaid-----	+207	+280	+343.3
Sales proceeds-----	+403	+563	+624.2
Storage and handling charges-----	-60	-91	-58.0
Subtotal, price support-----	+145	-295	-178.0
Export subsidy-----	0	-3	-13.5
Cotton products-----	0	-13	-3.5
Public Law 480-----	-117	-117	-151.0
PIK—equalization payment (domestic and export)-----	¹ -374	³ -27	-464.7
Interim payments (on bales opened from April 11 to July 31, 1964)-----			-25.0
Domestic allotment payments-----	-102	⁴ -45	⁵ -57.0
Total major expenditures (excluding interest)-----	² -448	-500	-892.7
Change in CCC stocks (June 30) (from prior year)-----	-2,150,000	+300,000	+550,000

¹ This payment on 9.6 domestic consumption would be only \$312,000,000, balance of payment would be on cotton that would go for export. The additional cotton for export will be purchased from CCC at reduced prices.

² If sufficient export acres were permitted to produce 300,000 bales, this would increase both expenditures and farm income about \$34,000,000.

³ Based on 600,000 bales at 9 cents.

⁴ Based on 2.47 cents on 1st 10 bales.

⁵ Includes advance payments on 1965 domestic allotment program.

NOTE.—Does not include the one-time transition expenditures that could be incurred in 1963-64 or 1964-65 under new legislation.

TABLE IV.—Manmade staple fiber: Daily rate of mill consumption by cotton-system spinning spindles, adjusted August 1962 to date ¹

[Bales]

	1962-63		1963-64		1964-65	
	Rayon and acetate	Noncellulosic	Rayon and acetate	Noncellulosic	Rayon and acetate	Non-cellulosic
August-----	3,977	1,450	4,756	2,039	5,217	2,413
September-----	4,243	1,587	4,956	1,131	5,227	2,563
October-----	4,185	1,585	4,904	2,002	5,144	2,529
November-----	4,345	1,645	5,102	2,087	5,179	2,671
December-----	4,352	1,662	5,041	2,052	5,027	2,573
January-----	4,450	1,792	5,162	2,179	5,435	2,758
February-----	4,585	1,183	5,220	2,208	5,146	2,852
March-----	4,641	1,900	5,193	2,162	5,054	2,788
April-----	4,560	1,947	5,325	2,166	5,167	2,938
May-----	4,810	1,958	5,247	2,118		
June-----	4,912	2,031	5,283	2,152		
July-----	4,920	2,058	5,335	2,366		

¹ Seasonably adjusted.

Source: Cotton situation, May 1965.

TABLE V.—Upland cotton: Daily rate of mill consumption, seasonally adjusted, August 1962 to date

[Bales]

Month	1962-63, adjusted	1963-64, adjusted	1964-65, adjusted
August.....	32,739	31,533	33,773
September.....	32,186	32,217	34,350
October.....	31,354	31,974	33,824
November.....	31,806	32,365	34,547
December.....	31,050	31,497	33,764
January.....	31,006	32,400	36,129
February.....	31,170	32,686	35,321
March.....	31,609	31,987	34,677
April.....	31,440	32,585	35,907
May.....	32,476	32,118	-----
June.....	31,833	32,931	-----
July.....	32,470	35,243	-----

Source: Cotton situation May 1965.

TABLE VI.—U.S. mill consumption of fibers seasonally adjusted daily rate: Percent change May 1965 from April 1965 and from May 1964

	Change from—	
	Past month	Past year
Upland cotton.....	−3.3	+8.2
Extra-long staple.....	−4.6	+15.2
Cellulosic staple.....	−1.2	−2.7
Noncellulosic staple.....	−3.8	+29.6

TABLE VII.—Upland cotton: Mill consumption of raw cotton and cotton textile exports, percent used domestically and exported, crop years, 1959-60 to 1963-64

Year beginning Aug. 1	Mill consumption	Textile exports ¹	Domestic use	Exported
	1,000 bales	1,000 bales	Percent	Percent
1959.....	8,879	511	94	6
1960.....	8,131	482	94	6
1961.....	8,783	480	95	5
1962.....	8,258	436	95	5
1963.....	8,468	466	94	6
1964.....	9,300	362	96	4

¹ Raw cotton equivalent of U.S. exports of cotton textiles.

TABLE VIII.—Upland cotton: Mill consumption, raw cotton equivalent of U.S. textile exports, percent exports of mill consumption, and of total disappearance, crop years 1962-63, 1963-64, and estimated 1964-65

Crop year	Mill consumption	Textile exports	Textile exports as percent	
			Mill consumption	Total disappearance ¹
	1,000 bales	1,000 bales		
1962-63.....	8,258	436	5.3	3.8
1963-64.....	8,468	466	5.5	3.3
1964-65 ²	9,300	362	3.9	2.6

¹ Mill consumption and exports of raw cotton.
² Estimated.

TABLE IX.—Cotton textiles: Raw cotton equivalent exports, imports, and trade balance, crop years 1962-63, 1963-64, and estimated 1964-65

Crop year	Exports	Imports	Trade balance ¹
	1,000 bales	1,000 bales	1,000 bales
1962-63.....	436	656	-220
1963-64.....	466	601	-135
1964-65 ²	362	673	-311

¹ Import trade balance.
² Estimate.

TABLE X.—Mill consumption of cotton, wool, and man-made fibers, total and percent of total by fiber, 1952-63

Calendar year	Cotton	Wool	Man-made	Total	Cotton	Wool	Man-made	Total
		Million pounds			Percent			
United States: ¹								
1952.....	4,470.9	466.4	1,490.2	6,427.5	69.5	7.3	23.2	100.0
1953.....	4,456.1	494.0	1,523.7	6,473.8	68.9	7.6	23.5	100.0
1954.....	4,127.3	384.1	1,508.3	6,019.7	68.6	6.4	25.0	100.0
1955.....	4,382.4	413.8	1,902.5	6,698.7	65.4	6.2	28.4	100.0
1956.....	4,362.6	440.8	1,727.4	6,530.8	66.8	6.7	26.5	100.0
1957.....	4,060.4	368.8	1,792.6	6,221.8	65.3	5.9	28.8	100.0
1958.....	3,866.9	331.1	1,764.2	5,962.2	64.8	5.6	29.6	100.0
1959.....	4,334.5	435.3	2,064.8	6,834.6	63.4	6.4	30.2	100.0
1960.....	4,190.9	411.0	1,878.0	6,479.9	64.7	6.3	29.0	100.0
1961.....	4,081.5	412.1	2,060.9	6,554.5	62.3	6.3	31.4	100.0
1962.....	4,188.0	429.1	2,419.2	7,036.3	59.5	6.1	34.4	100.0
1963 ²	4,040.2	411.7	2,788.0	7,239.9	55.8	5.7	38.5	100.0
1964 ²	4,245.2	355.4	3,175.5	7,776.1	54.6	4.6	40.8	100.0
Foreign free world: ³								
1952.....	7,520.8	1,583.6	1,874.7	10,979.1	68.5	14.4	17.1	100.0
1953.....	8,261.7	1,806.7	2,347.9	12,416.3	66.5	14.6	18.9	100.0
1954.....	8,973.2	1,737.2	2,799.4	13,509.8	66.4	12.9	20.7	100.0
1955.....	8,954.9	1,797.2	3,002.2	13,754.3	65.1	13.1	21.8	100.0
1956.....	9,516.2	1,934.3	3,539.5	14,990.0	63.5	12.9	23.6	100.0
1957.....	10,092.4	2,028.2	3,800.0	15,920.6	63.4	12.7	23.9	100.0
1958.....	9,729.3	1,826.3	3,443.2	14,998.8	64.9	12.2	22.9	100.0
1959.....	10,046.6	2,165.4	3,968.0	16,180.0	62.1	13.4	24.5	100.0
1960.....	10,847.3	2,096.1	4,264.2	17,207.6	63.0	12.2	24.8	100.0
1961.....	11,440.6	2,155.9	4,522.3	18,118.8	63.1	11.9	25.0	100.0
1962.....	11,147.6	2,140.0	4,949.8	18,237.4	61.1	11.7	27.2	100.0
1963 ²	11,463.0	2,147.1	5,535.1	19,145.2	59.9	11.2	29.0	100.0
United Kingdom: ³								
1952.....	694.4	385.8	246.9	1,327.1	52.3	29.0	18.7	100.0
1953.....	814.6	496.0	376.9	1,687.5	48.3	29.4	22.3	100.0
1954.....	883.4	471.6	401.3	1,756.3	50.3	26.8	22.9	100.0
1955.....	774.3	486.3	394.6	1,655.2	46.8	29.4	23.8	100.0

¹ Data from Economic Research Service, U.S. Department of Agriculture.
² Preliminary.
³ Data from International Cotton Advisory Committee.

TABLE X.—*Mill consumption of cotton, wool, and man-made fibers, total and percent of total by fiber, 1952-63—Continued*

Calendar year	Cotton	Wool	Man-made	Total	Cotton	Wool	Man-made	Total
	Million pounds				Percent			
United Kingdom—Con. ³								
1956	733.2	492.1	423.3	1,648.6	44.5	29.8	25.7	100.0
1957	759.9	500.2	449.8	1,709.9	44.4	29.2	26.4	100.0
1958	631.8	460.1	372.5	1,464.4	43.1	31.4	25.5	100.0
1959	639.1	509.3	439.6	1,588.0	40.2	32.1	27.7	100.0
1960	613.8	481.3	526.9	1,622.0	37.8	29.7	32.5	100.0
1961	551.2	472.0	604.0	1,627.2	33.9	29.0	37.1	100.0
1962	489.6	448.4	670.6	1,608.6	30.4	27.9	41.7	100.0
1963 ²	503.1	457.9	798.5	1,759.5	28.6	26.0	45.4	100.0
Japan: ¹								
1952	905.4	99.2	396.2	1,400.8	64.6	7.1	28.3	100.0
1953	1,075.0	125.2	518.3	1,718.5	62.6	7.3	30.1	100.0
1954	1,107.2	110.0	635.4	1,852.6	59.8	5.9	34.3	100.0
1955	998.9	126.5	744.5	1,869.9	53.5	6.8	39.7	100.0
1956	1,248.0	170.6	955.0	2,373.6	52.6	7.2	40.2	100.0
1957	1,338.4	188.3	1,016.5	2,543.2	52.6	7.4	40.0	100.0
1958	1,103.2	161.4	768.7	2,033.3	54.3	7.9	37.8	100.0
1959	1,250.9	239.0	970.6	2,460.5	50.8	9.7	39.5	100.0
1960	1,478.2	281.3	1,087.9	2,847.4	51.9	9.9	38.2	100.0
1961	1,741.6	325.2	1,164.0	3,230.8	53.9	10.1	36.0	100.0
1962	1,443.4	297.4	1,170.4	2,911.2	49.6	10.2	40.2	100.0
1963 ²	1,469.8	302.3	1,330.7	3,102.8	47.4	9.7	42.9	100.0
Belgium: ³								
1952	173.5	57.1	20.3	250.9	69.2	22.8	8.0	100.0
1953	190.3	69.9	30.8	291.0	65.4	24.0	10.6	100.0
1954	210.8	63.3	41.2	315.3	66.9	20.0	13.1	100.0
1955	196.4	64.8	41.0	302.2	65.1	21.4	13.5	100.0
1956	202.0	78.0	45.2	325.4	62.1	24.0	13.9	100.0
1957	210.8	79.8	57.3	347.9	60.6	22.9	16.5	100.0
1958	164.5	70.3	38.2	273.0	60.2	25.8	14.0	100.0
1959	190.7	80.0	52.7	323.4	59.0	24.7	16.3	100.0
1960	202.8	88.0	65.4	356.2	56.9	24.7	18.4	100.0
1961	201.1	84.4	81.8	367.3	54.7	23.0	22.3	100.0
1962	185.6	102.1	101.2	388.9	47.7	26.2	26.1	100.0
1963 ²	184.5	97.0	122.6	404.1	45.7	24.0	30.3	100.0
France: ¹								
1952	548.3	213.8	147.5	909.6	60.3	23.5	16.2	100.0
1953	582.2	250.2	189.1	1,021.5	57.0	24.5	18.5	100.0
1954	649.0	256.4	193.1	1,098.5	59.1	23.3	17.6	100.0
1955	570.3	245.6	209.6	1,025.5	55.6	24.0	20.4	100.0
1956	602.3	276.2	228.6	1,107.1	54.4	24.9	20.7	100.0
1957	667.3	310.4	270.7	1,248.4	53.4	24.9	21.7	100.0
1958	630.5	266.1	267.0	1,163.6	54.2	22.9	22.9	100.0
1959	589.3	284.0	258.4	1,131.7	52.1	25.1	22.8	100.0
1960	663.4	201.6	331.6	1,296.6	51.2	23.3	25.5	100.0
1961	661.8	301.6	336.6	1,299.5	50.9	23.2	25.9	100.0
1962	614.0	290.8	371.5	1,276.3	48.1	22.8	29.1	100.0
1963 ²	616.6	296.3	428.8	1,341.7	46.0	22.1	31.9	100.0
Federal Republic of Germany: ³								
1952	468.5	131.6	304.0	904.1	51.8	14.6	33.6	100.0
1953	548.7	153.7	349.9	1,052.3	52.2	14.6	33.2	100.0
1954	596.1	151.7	383.4	1,131.2	52.7	13.4	33.9	100.0
1955	599.9	180.1	417.3	1,197.3	50.1	15.0	34.9	100.0
1956	649.0	191.4	413.0	1,253.4	51.8	15.3	32.9	100.0
1957	696.9	192.2	425.5	1,314.6	53.0	14.6	32.4	100.0
1958	665.3	144.8	389.4	1,199.5	55.5	12.1	32.4	100.0
1959	669.8	149.9	454.3	1,274.0	52.6	11.8	35.6	100.0
1960	713.6	151.5	506.9	1,372.0	52.0	11.0	37.0	100.0
1961	689.6	149.7	528.2	1,367.5	50.4	11.0	38.6	100.0
1962	649.0	147.0	584.0	1,380.0	47.0	10.7	42.3	100.0
1963 ²	618.6	153.4	621.5	1,393.5	44.4	11.0	44.6	100.0
Italy: ¹								
1952	409.6	125.0	126.3	660.9	62.0	18.9	19.1	100.0
1953	410.5	131.6	145.5	687.6	59.7	19.1	21.2	100.0
1954	414.9	118.6	192.5	726.0	57.2	16.3	26.5	100.0
1955	361.3	113.3	161.1	635.7	56.8	17.8	25.4	100.0
1956	386.2	126.8	212.8	725.8	53.2	17.5	29.3	100.0
1957	530.8	160.9	238.5	830.2	51.9	19.4	28.7	100.0
1958	405.9	156.1	244.5	806.5	50.3	19.4	30.3	100.0
1959	443.6	166.2	268.5	878.3	50.5	18.9	30.6	100.0
1960	500.4	198.0	290.1	988.5	50.6	20.0	29.4	100.0
1961	496.0	187.0	314.8	997.8	49.7	18.7	31.6	100.0
1962	508.4	205.0	396.1	1,109.5	45.8	18.5	35.7	100.0
1963 ²	502.6	196.2	434.1	1,132.9	44.4	17.3	38.3	100.0

¹Data from Economic Research Service, U.S. Department of Agriculture.²Preliminary.³Data from International Cotton Advisory Committee.

TABLE XI.—*Acreage of cotton in specified countries*

[In thousands of acres]

Area	Average		1960	1961	1962	1963	1964 ¹
	1934-'38	1955-59					
United States ⁴	28,400	14,613	15,309	15,634	15,569	14,212	14,058
Mexico.....	679	2,270	2,234	2,020	2,064	1,964	1,924
Central America:							
Nicaragua.....	8	209	151	185	230	285	325
Other.....	159	180	311	422	507	608	647
Total.....	167	389	462	607	737	893	972
South America:							
Argentina.....	765	1,323	1,033	1,345	1,284	1,304	1,400
Brazil.....	5,181	4,320	5,000	5,500	5,500	5,750	6,000
Colombia.....	86	224	359	398	449	400	405
Peru.....	415	588	618	610	680	680	680
Other.....	196	282	267	284	367	355	355
Total.....	6,633	6,737	7,277	8,137	8,280	8,489	8,840
Europe:							
Greece.....	153	383	409	510	508	570	350
Italy.....		104	55	54	54	40	
Spain.....	43	454	618	788	855	650	490
Other.....	130	485	289	246	219	224	264
Total.....	326	1,426	1,371	1,598	1,636	1,484	1,104
Africa:							
Central African Republic.....		375	408	395	400	400	
Chad.....		580	592	618	750	715	
Congo, Léopoldville.....	814	848	450	250	300	300	
Egypt.....	1,843	1,858	1,944	2,062	1,720	1,689	1,672
Mozambique.....	² 202	744	763	773	750	775	775
Nigeria.....	² 188	790	800	800	800	800	800
Other.....	2,813	3,514	3,940	4,692	4,295	4,480	5,816
Total.....	5,860	8,709	8,897	9,590	9,015	9,159	9,063
Asia and Oceania:							
Burma.....	461	336	379	468	475	500	550
India.....	³ 24,682	19,720	18,871	18,710	19,230	19,600	19,700
Iran.....	402	656	800	985	1,000	988	980
Korea, South.....		208	125	120	79	61	
Pakistan.....	(³)	3,490	3,242	3,488	3,435	3,670	3,670
Syria.....	74	623	525	616	747	721	710
Turkey.....	621	1,554	1,534	1,604	1,631	1,553	1,650
Other.....	8,708	15,006	13,618	11,150	9,686	11,098	11,904
Total.....	34,318	41,593	39,094	37,141	36,283	38,191	39,164
Foreign free world.....	¹ 41,778	46,249	45,951	48,348	48,795	49,571	49,758

¹ Preliminary.² 4-year average.³ India includes Pakistan.⁴ Harvested acres

Source: Foreign Agricultural Service

TABLE XII.—*Cotton production in specified countries*

[In thousands of bales]

Continent and country	Average		1960	1961	1962	1963	1964 ¹
	1934-38	1955-59					
United States.....	12,712	13,013	14,272	14,318	14,867	15,334	15,173
Mexico.....	317	2,032	2,100	1,995	2,425	2,109	2,275
Central America:							
Nicaragua.....	5	184	146	255	340	410	500
Other.....	34	236	318	448	614	696	792
Total.....	39	420	464	703	954	1,106	1,292
South America:							
Argentina.....	275	539	569	496	620	450	530
Brazil.....	1,793	1,490	1,950	2,525	2,340	2,300	2,300
Colombia.....	23	154	307	360	375	335	320
Peru.....	372	518	555	655	675	625	650
Other.....	65	87	76	86	97	111	123
Total.....	2,528	2,788	3,457	4,122	4,107	3,821	3,923
Europe:							
Greece.....	70	270	288	448	410	430	325
Italy.....		45	26	24	18	24	
Spain.....	10	209	330	490	517	445	345
Other.....	53	120	137	71	106	88	130
Total.....	133	644	781	1,033	1,051	987	800
Africa:							
Central African Republic.....		63	50	45	50	45	
Chad.....		100	160	76	160	165	160
Congo, Léopoldville.....	153	243	125	75	75	60	40
Egypt.....	1,846	1,807	2,196	1,542	2,101	2,029	2,271
Mozambique.....		162	164	190	135	170	200
Nigeria.....	37	164	260	165	250	220	210
Other.....	672	1,115	1,210	1,491	1,556	1,318	1,709
Total.....	2,737	3,654	4,165	3,584	4,327	4,007	4,550
Asia and Oceania:							
Burma.....	95	73	75	95	90	65	90
India.....	² 5,168	3,991	4,630	4,075	4,900	5,200	4,900
Iran.....	158	306	456	530	425	530	525
Korea, South.....		56	29	42	27	18	
Pakistan.....	(²)	1,376	1,398	1,505	1,690	1,940	1,900
Syria.....	25	441	511	572	689	700	750
Turkey.....	240	738	775	950	1,080	1,150	1,200
Other.....	3,391	7,402	6,777	5,341	5,033	5,110	6,145
Total.....	9,077	14,383	14,651	13,110	13,934	14,713	15,510
Foreign free world.....	³ 12,300	16,643	18,986	19,479	21,928	21,932	22,339

¹ Preliminary.² India includes Pakistan.³ 3-year average.

Source: Foreign Agricultural Service.

TABLE XIII.—*Cotton yields in specified countries*

[Pounds per acre]

Continent and country	Average		1960	1961	1962	1963	1964 ¹
	1934-38	1955-59					
United States.....	212	428	447	440	457	517	524
Mexico.....	227	430	451	474	564	515	568
Central America:							
Nicaragua.....	² 274	423	464	662	710	691	738
Other.....	103	629	491	510	581	549	588
Total.....	112	518	482	556	621	594	638
South America:							
Argentina.....	171	196	264	177	232	166	182
Brazil.....	165	166	187	220	204	192	184
Colombia.....	135	330	410	434	401	402	379
Peru.....	432	423	431	515	476	441	459
Other.....	168	148	137	145	127	150	166
Total.....	183	199	228	243	238	216	213
Europe:							
Greece.....	218	338	338	422	387	362	446
Italy.....		208	227	213	160	288	
Spain.....	119	221	256	298	290	329	338
Other.....	196	119	228	139	232	189	236
Total.....	198	217	273	310	308	319	348
Africa:							
Central African Republic.....		81	59	55	60	54	
Chad.....		83	130	59	102	111	
Congo, Léopoldville.....	88	138	133	144	120	96	96
Egypt.....	477	467	542	359	586	577	652
Mozambique.....	² 78	105	103	118	86	105	124
Nigeria.....	² 85	100	156	99	150	132	126
Other.....	115	152	147	153	174	141	141
Total.....	224	201	225	179	227	210	241
Asia and Oceania:							
Burma.....	² 103	104	95	97	91	62	79
India.....	100	97	118	105	122	127	119
Iran.....	205	224	274	258	204	257	257
Korea, South.....		129	111	168	164	142	
Pakistan.....	287	189	207	207	236	254	248
Syria.....	165	340	467	446	443	466	507
Turkey.....	186	228	243	284	318	355	349
Other.....	201	237	239	230	249	221	248
Total.....	126	166	180	169	184	185	190
Foreign free world.....	² 141	173	198	193	216	212	217

¹ Preliminary.² 4-year average.

Source: Foreign Agricultural Service.

TABLE XIV.—*Cotton exports from specified countries*

[In thousands of bales of 500 pounds gross weight]

Continent and country	Average		1960	1961	1962	1963 ¹	1964 ²
	1934-38	1955-59					
United States.....	5,296	5,297	6,858	5,056	3,429	5,775	4,500
Mexico.....	95	1,573	1,610	1,482	1,897	1,426	-----
Central America:							
Nicaragua.....		196	139	242	288	410	-----
Other.....		208	231	345	542	609	-----
Total.....		404	370	587	830	1,019	-----
South America:							
Argentina.....	133	³ 33	66	141	216	100	-----
Brazil.....	1,065	419	695	847	1,145	1,023	-----
Colombia.....		⁴ 30	119	143	115	45	-----
Peru.....	337	442	478	576	590	509	-----
Other.....		0	20	29	32	47	-----
Total.....		924	1,378	1,736	2,098	1,724	-----
Europe:							
Greece.....		160	150	302	238	263	-----
Italy.....							-----
Spain.....		0	0	0	100	60	-----
Other.....		5	5	8	4	6	-----
Total.....		165	155	310	342	329	-----
Africa:							
Central African Republic.....							-----
Chad.....							-----
Congo, Léopoldville.....	⁵ 133	199	120	85	28	28	-----
Egypt.....	1,746	1,366	1,582	1,121	1,361	1,385	-----
Mozambique.....	⁵ 25	141	210	154	184	115	-----
Nigeria.....		146	181	168	128	160	-----
Other.....		1,227	1,128	1,272	1,491	1,617	-----
Total.....		3,079	3,221	2,800	3,192	3,305	-----
Asia and Oceania:							
Burma.....	⁽⁶⁾	58	49	69	69	-----	-----
India.....	⁶ 2,779	309	224	253	287	231	-----
Iran.....	80	187	245	266	220	332	-----
Korea, South.....	⁵ 47	0	0	0	0	0	-----
Pakistan.....	⁽⁶⁾	464	244	299	683	689	-----
Syria.....	⁵ 11	383	445	474	614	608	-----
Turkey.....	⁵ 84	246	286	458	568	587	-----
Other.....		284	233	172	130	215	-----
Total.....		1,931	1,726	1,991	2,571	2,662	-----
Foreign free world.....	7,541	8,075	8,460	8,906	10,930	10,529	10,800

¹ Preliminary and partly estimated.² Estimated.³ 4-year average.⁴ 1 year available.⁵ Calendar years.⁶ India includes Burma and Pakistan.

Source: Foreign Agricultural Service.

TABLE XV.—*Upland cotton and manmade staple fibers: Mill consumption on cotton-system spinning spindles, by months, 1962-63 to date*

Year and month	Cotton (bales ¹)	Manmade fibers		
		Rayon and acetate (bales ²)	Noncellu- losic (bales ²)	Total (bales ²)
1962-63				
August	680,313	84,565	31,115	115,680
September	644,375	84,048	31,279	115,327
October	³ 808,927	³ 110,431	³ 39,615	³ 150,046
November	653,284	91,808	32,110	123,918
December	576,909	82,067	29,706	111,773
January	³ 775,151	³ 108,715	³ 42,948	³ 151,663
February	642,104	94,012	37,240	131,252
March	652,406	95,550	38,662	134,212
April	³ 793,078	³ 114,485	³ 49,208	³ 163,693
May	681,339	97,098	42,487	139,585
June	650,046	98,544	44,825	143,369
July	³ 672,941	³ 104,683	³ 46,962	³ 151,645
Total ⁴	8,230,873	1,166,006	466,157	1,632,163
10-month total	6,907,886	962,779	374,370	1,337,149
1963-64				
August	654,008	99,960	43,710	143,670
September	648,211	100,342	39,094	139,436
October	³ 820,108	³ 127,840	³ 50,067	³ 177,907
November	666,713	107,254	39,992	147,246
December	586,485	95,715	36,690	132,405
January	³ 804,325	³ 125,600	³ 52,290	³ 177,890
February	673,961	108,708	43,927	152,635
March	662,781	107,429	44,150	151,579
April	³ 818,700	³ 132,333	³ 54,667	³ 187,000
May	675,931	105,906	47,354	153,260
June	672,450	105,985	47,510	153,495
July	³ 730,440	³ 113,473	³ 54,035	³ 167,508
Total ⁴	8,414,113	1,330,546	553,485	1,884,031
10-month total	7,011,223	1,111,088	451,940	1,563,028
1964-65				
August	700,458	109,663	51,679	161,342
September	691,125	105,798	50,998	156,796
October	³ 867,593	³ 134,102	³ 63,229	³ 197,331
November	711,662	108,910	51,146	160,056
December	³ 785,832	³ 119,267	³ 57,517	³ 176,784
January	717,527	105,802	52,956	158,758
February	728,323	106,283	56,727	163,010
March	³ 898,019	³ 130,625	³ 71,119	³ 201,744
April	721,742	102,719	59,298	162,017
May	729,474	103,000	61,352	164,352
10-month total	7,451,845	1,126,169	570,021	1,702,190

¹ Running bales.² Actual monthly consumption in pounds divided by 480. The level of manmade fiber consumption would be higher on a cotton equivalent basis.³ 5-week period.⁴ Sum of monthly consumption, not adjusted to marketing basis, Aug. 1-July 31.

Source: Economic Research Service, U.S. Department of Agriculture.

The CHAIRMAN. All right, will you identify yourself for the record, please?

**STATEMENT OF PAUL S. RANSOM, CHAIRMAN, COTTON COMMITTEE,
LOUISIANA FARM BUREAU FEDERATION, MONROE, LA.**

Mr. RANSOM. Paul Ransom of Louisiana.

Chairman Ellender and members of the committee, I am Paul S. Ransom of Monroe, La., a cotton farmer and chairman of Louisiana Farm Bureau Cotton Committee.

The gentlemen with me are Mr. Bruce Lynn, vice president of Louisiana Farm Bureau Cotton Committee and a cotton farmer from Caddo Parish; Mr. Richard Sanders, a cotton farmer from St. Landry Parish; and Mr. Phillip Wemple, a cotton farmer from Rapides Parish. We represent the four major cotton-producing areas of Louisiana. Our statement today is the official statement of Louisiana Farm Bureau Federation and, in our best judgment, the thinking of the overwhelming majority of cotton farmers in Louisiana.

In Louisiana, agriculture and industry are about evenly divided in contributions to our economic makeup. Cotton represents our greatest source of agricultural income in Louisiana, consequently all of our people are interested in legislation affecting cotton.

For the past 8 months, the cotton leaders of our State have held numerous meetings of cotton producers and agri-business people in an earnest effort to gain a composite view of Louisiana cotton people regarding cotton legislation.

For the past several months, farm magazines, organizations, and special interest groups have advocated a wide variety of legislation as a cure for the ills of cotton. It is our earnest thought after analyzing most of the proposals that Senate bill 2110 offers, by far, the best approach to the problems of cotton.

We will attempt to touch on some of the various aspects of this bill and bring to your attention our thoughts on most of the important points.

Senate bill 2110 provides for a continuation of the 16-million-acre minimum national allotment. We feel this is extremely important to the producer as volume opportunity is absolutely essential if we are to become more efficient and reduce our costs which must be the key to the solution of our problem regardless of the legislation passed by Congress. We will not belabor this point because we feel members of this committee fully recognize the importance of this matter to both farmers and the total industry.

Senate bill 2110 provides for price supports from 65 to 90 percent of parity. The minimum price support, 65 percent of parity, would result in a price support of 27.07 cents if it were computed as of May 1965.

However, being realistic, parity is trending steadily upward and it would be most reasonable to assume that by the time this bill became effective, the minimum price support possible would be no lower than 27.5 cents per pound, basis Middling 1-inch cotton. We wish to point out to members of the committee that this is the minimum price support and not, necessarily, the market price for cotton.

Another key feature of the bill which affects the price of cotton at the farm level is the provision that the Commodity Credit Corporation offer its stocks of cotton for sale at not less than 115 percent of the loan value. We, in Louisiana, endorse this provision most heartily and we feel that we have sound reason for its inclusion in any cotton bill.

First, it would allow farmers to market their crops at a price above the loan rate through the free channels of trade as it would be more profitable to buy cotton from farmers than the higher priced CCC stock.

It would be reasonable to assume that the market price for cotton would stabilize at 1 to 2 cents per pound above the loan, depending on the particular grade and its demand by the mills.

In short, what we are saying here, gentlemen, is that quality cotton will find its way into the market at a premium without first going through the CCC. There are also some advantages costwise to the Government in cotton moving from the farmer through the trade to the mills, rather than through the CCC. We would point out that the Department of Agriculture's figures show a \$6-per-bale loss in grade alone when cotton moves through Government channels. This \$6 loss is caused by cotton being put in the loan at one grade classification and offered for sale by the CCC at a lower classification.

In summary, the minimum price for middling 1-inch cotton should stabilize at approximately 29 cents per pound under the minimum price support of 65 percent of parity and a CCC resale price of 115 percent of the loan.

The CHAIRMAN. That is not included in my bill, 115. It will remain 105.

Mr. RANSOM. 115 came into effect in 1956. It is my understanding it became incorporated and was effective in the law of 1958.

The CHAIRMAN. We will check that.

Senator JORDAN. Mr. Chairman, may I ask a question right back here where he said the figures show \$6 per bale loss in grade alone when the cotton moves through Government channels.

This \$6 loss is caused by cotton being put in the loan at one grade classification and offered for sale by the CCC at a lower classification.

I think the truth about the matter is it was overclassed when it went in there and they bought what it really was when it came out, which is what it was when it went in there.

Mr. RANSOM. There is some deterioration of class, I have been told, and the cotton that goes into the loan is generally cotton that is overclassed and this would have an effect in it. You get the bad class and you are going to have some of it regardless of how efficient you might be. But this \$6 figure is a firm figure that we picked up over in the Department.

The CHAIRMAN. I want to place in the record at this point so that your statement will reflect the facts as they are, that in 1964 the 105 percent provision was reinstated, you are correct in saying that in the act of 1958 it is 115 but that was repealed by act of 1964.

Mr. RANSOM. Right.

This bill also provides for the release and reapportionment of acreage which is extremely important to Louisiana.

Gentlemen, I would like to ask Mr. Richard Sanders, a cotton farmer from St. Landry Parish, who has served as chairman of the Louisiana Cotton Acreage Utilization Committee for the past 4 years, to cover this point with you.

The CHAIRMAN. Mr. Sanders.

**STATEMENT OF RICHARD SANDERS, LOUISIANA FARM BUREAU
FEDERATION, MORROW, LA.**

Mr. SANDERS. Mr. Chairman and members of the Senate committee, I appreciate the opportunity of appearing before this committee. I am Richard Sanders of St. Landry Parish, La., a cotton farmer representing Louisiana Farm Bureau Federation.

I would like to correct Mr. Ransom's time. I have served for 3 years instead of 4, but that is only 1 year, Senator.

For the past 3 years, I have served as chairman of the State Cotton Acreage Release and Reapportionment Committee.

In 1963 there were 61,166 acres of cotton released by the farmers of Louisiana for reapportionment during that year only to other farmers in their area and other parts of the State.

In 1964 there were 49,470 acres released, and in 1965 there were 40,613 acres released. This additional acreage has meant between \$8 and \$10 million to the agricultural economy of Louisiana per year.

The program works this way—cotton acres are released for a year by holders of cotton allotments who do not plan on planting that year. The acres are then reapportioned by the ASC committees to cotton growers who are interested in planting more acreage. In most cases the livelihood of these farmers depends on the production of cotton.

We have been in a transitional period in Louisiana since release and reapportionment came in effect. The majority of these released acres have been put into the hands of farmers who have changed to a more mechanized operation. The majority of the young cotton farmers in my parish and surrounding parishes would not be farming today if releases and reapportionment had not come about.

May I at this time pinpoint my parish, St. Landry. It is in the southwest area of Louisiana. We have at the present time 34,000 acres of cotton allotment. We also have in the neighborhood of 2,700 farms with a cotton allotment. So you can easily see that the average size cotton allotment is only slightly over 10 acres per farm. This year there were 4,070 acres of cotton allotment released in St. Landry Parish.

This amounted to approximately \$700,000 to the economy of my parish. You can see—you can very well see that this is approximately 12 percent of our total cotton allotment. In addition, we received 793 acres from the State, from other parishes where the released acreage was not all used by the farmers of that parish. It is obvious what this has meant to the economy of my parish.

The additional acreage from the State amounted to some \$120,000 in additional income. The total income from released cotton acreage was \$820,000 in my parish alone, this is figuring only the income from the cotton that we were able to use because of the release program.

Gentlemen, can you imagine how many additional people were employed by the agribusiness industry as a result of this additional income?

In 1959, we only had five mechanical cottonpickers in my parish. At this time we have 54. Every owner of a mechanical harvester is directly dependent upon the cotton release and reapportionment program.

By far the majority of these people were small farmers a few years ago. They not only harvest their own crop, they do custom harvesting for many small farmers in their area. Gentlemen, if the release and reapportionment program is hindered in any manner, there will be a vast number of medium-sized, but mainly small, farmers who will be put out of business.

I give you an example—there are 953 farmers in my parish that received reapportionment acres; only 57 of these farms were 50 acres and above and 986 were 50 acres and less. You have already seen that by far the majority of these people are 10-acre, or less, cotton farmers.

A great deal has been said about finding ways to help the small farmer. I know of no better way to help the small cotton farmer than to keep this program in its present form.

Too, this program has helped people help themselves.

Thank you, Senator.

Mr. RANSOM. Senate bill No. 2110 provides for the retention of the domestic allotment provision of the 1965 act, farmers with 15 acres or less would receive 115 percent of the loan on the average production and larger farmers who wish to curtail their production to their domestic allotment would also receive this assistance.

Secretary Freeman, in early testimony, quoted the phrase "export or die" as being most applicable to the cotton business. I could not agree with him more. The cotton act of 1964 surely doomed itself to failure when it rigidly tied together the domestic price and the export price of American cotton. The results on cotton exports, as we all know, have been disastrous.

Senate bill No. 2110 returns to the export provisions of the 1958 act which were most successful in moving American cotton abroad. We must, once again, think in terms of selling no less than 6 to 6½ million bales to our foreign customers. The Secretary of Agriculture would have ample authority and, in fact, instructions to accomplish this fact.

Let's talk about production under this proposed bill. It is our contention that production would be from 14 to 14½ million bales under this proposal in 1966. This would be based on the logical assumption that 1 million acres would again be signed up in the domestic allotment provision of this bill.

What will domestic consumption be? In 1963, when the market price was in excess of 33 cents per pound, basis Middling 1 inch, we consumed 8.6 million bales, domestically. With the market price at 29 cents, a reasonable assumption would be that we would consume, domestically, with no subsidy to the mills, no less than 9 million bales.

We would like to point out that this price reduction is a real price reduction and is a major contribution, made by the farmers, toward

solving cotton's problems. The 1964 act which instituted the domestic mill subsidy went further than correcting a price inequity, it actually gave a distinct price advantage to the American mills.

For the cost of cotton, at the mill door, including freight, is much higher for foreign mills due to the higher freight.

To be exactly competitive, the delivered price would have to be the same to both foreign and domestic mills. We feel that at least \$15 per bale is the price advantage enjoyed by the domestic mills.

On top of that, before these textiles could compete with American textiles, it had another voyage and added expense before it could compete in this country. It is our thought that an import tariff on cotton textiles should be in effect to aid the American mills overcome foreign competition. If this were done, along with the current reduction in price, our mills would be in not too bad a competitive position.

What is the cost of the program? We have noticed that testimony on this point varies greatly between opponents and proponents of any given bill as to the various costs included or excluded for purposes of their illustration. We shall include only direct costs that this bill would provide for. If we export 6½ million bales and it takes a \$30-a-bale subsidy to do the job, then our export subsidy would be \$195 million.

If 1 million acres are not planted, because of the domestic allotment provision, payments on the normal yield, based on 500-pound average, would be approximately \$40 million. If there are 3 million acres involved in the 15 acres or less category, this would cost \$60 million or a total of export subsidy and domestic payments of \$295 million, which is considerably lower, at a direct cost figure, than any of the programs we've seen.

Gentlemen, we hope that the committee will give careful consideration to Senate bill No. 2110, as we in Louisiana feel that it has much merit and see it as a giant step forward for cotton. I wish to express my sincere appreciation for the privilege of conveying to you the position of Louisiana farmers, as stated in our testimony.

Thank you for your kind consideration.

The CHAIRMAN. Any questions?

Senator RUSSELL. As I understand it, your suggestion in order to be fair to the American textile industry as against this two-price cotton system that would be the result of the bill to which you are advocating, would be to increase the tariff on foreign imports.

Mr. RANSOM. That is correct.

Senator RUSSELL. And actually that—do you have any calculation on how much that should be?

Mr. RANSOM. No, I do not. It would have to be examined and worked out, I am sure.

Senator RUSSELL. You recognize you have to do one of the two alternatives if you are going to be fair to the textile industry. You have either got to increase the tariffs on imports of textiles on the one hand or you would have to continue the one-price cotton system.

Mr. RANSOM. Well, I think in my testimony I stated that really to be fair we have to talk about delivered price of cotton at the mill door.

Senator RUSSELL. I know that.

Mr. RANSOM. Yes, but we would think to further aid the mills in their competitive situations that an import tariff on finished cotton textiles would be highly desirable.

The CHAIRMAN. Will you be more specific in telling us the difference in the costs to the mills in the United States and abroad under the way that the cotton program was administered last year?

Mr. RANSOM. Well, the price was figured as a price here in the United States. I have here with me some copies of the latest sales in New Orleans.

Incidentally, our export price as of June 16, basis Middling 1 inch was 25.05 cents per pound. This is the price that American cotton was offered for overseas. Consequently approximately the same price was offered for domestic mills. In other words, these had to be the same.

Now, our contention is this, that it takes at least \$15 more to get that bale overseas, and this is a real cost to a foreign purchaser of cotton. It costs the domestic mills not nearly this much, so the delivered price of cotton under this proposal in reality is cheaper to the American mills than it is to the foreign customers by at least \$15. I suspect when you really examine all of the costs like the extra bag and ties and insurance it would probably approach \$20, but \$15 for the record.

It will stand up.

The CHAIRMAN. Any further questions?

Senator MILLER. May I just make clear that I follow you, you are suggesting that we stop that differential on the one hand, but that we make it up to our own textile producers on the other hand by an import tariff?

Mr. RANSOM. That is correct.

Senator MILLER. What is the difference which way you go, assuming now that the textile manufacturer comes out the same way because I can see where he can be just as well protected by having a competitive advantage, by having \$15 per bale less cost at delivered price, he would be protected by that just as well as he could be protected by a tariff duty.

Mr. RANSOM. Correct.

Senator MILLER. Why, what is the advantage of going the route you suggest to eliminate the difference?

Mr. RANSOM. I think it would cost the taxpayers less money this way; \$15 a bale, if you wanted to make it that, if that was the figure you decided on, it would cost \$15 per bale less taxpayers' money than it would on a tariff keeping these textiles from coming into the country, paying a duty on them.

Senator MILLER. You don't think that it would result in the taxpayers having more to pay for the goods because of the tariff duty?

Mr. RANSOM. I will say this, and I certainly am far from an expert in this field, but when you talk—let me say this, I know as a cotton farmer in my area that we cannot produce cotton any cheaper than this 29 cents that we quote in this statement. We say this, and we think we will arrive at that by the 115 trip point that commodity credit, but with 27½ cents loan by 66. We just can't go. That is 65 percent of parity. We just can't take any more out of the farmers' hide. It just won't work.

Senator RUSSELL. Going back to an old Southern doctrine, who pays the tariff?

Mr. RANSOM. Well, I am raising——

Senator RUSSELL. Does the consumer pay it?

Mr. RANSOM. I am sure someone would have to pay it.

Senator RUSSELL. So it doesn't make any difference whether you call him taxpayer or consumer the same man is going to pay this whichever it is, following up Senator Miller's question.

Mr. RANSOM. But the point I would make, the way I would answer it, it would not be a direct answer, is the price to the cotton farmer is down at least \$20 a bale in the last year; this is a real substantial contribution made by the man who grows cotton toward solving this problem.

We can't take it all out of his hide. There is just a limit on how far you can go. I think we have done a real good job of moving down the price. It has been a reluctant move but we are there, and we think we can stay with it at this price, and I think that is a major contribution toward this. This is not a fictitious price, it's a real reduction in price. We know it from the farm level, believe me.

The CHAIRMAN. Any further questions?

Senator JORDAN. Mr. Chairman, I think you will find that the textile mills would be very happy with the suggestion of equalizing the costs of the textile mills of this country with the foreign textile mills.

Senator RUSSELL. Do you have any optimism of their ability to secure it?

Senator JORDAN. The Tariff Commission turned it down. We tried to get a quota system put in which would regulate the flow of textiles into this country without any success. We have had some voluntary agreements that have been helpful but they haven't been really effective. All the efforts to impose a tariff coming into the country to protect the American market have been absolutely turned down.

The CHAIRMAN. I was of the impression that when this bill was enacted last year, that is the present law equalizing cotton prices that it would increase our exports. But apparently it hasn't, according to the latest figures we have obtained.

The exports of textiles amount to 362,000 bales, as I pointed out a while ago in contrast to 466,000 last year, and there has been some increase in the imports.

But not to the extent that——

Mr. RAMSOM. I think the reason here is obvious. Here is the latest sale figure I quoted as of June 16. Middling 1-inch cotton is offered for sale commodity credit New Orleans for 25.04, that is a substantial raise in price since the act of 1964 was enacted. I mean our cotton was selling at a lower price for export prior to the act of 1964.

Senator RUSSELL. Did you hear what Mr. Cortright testified to?

Mr. RANSOM. Yes, sir.

Senator RUSSELL. Did you hear his explanation of why he thought there had been a drop in exports?

Mr. RANSOM. I heard it; which point did you have reference to?

Senator RUSSELL. That the Commodity Credit fixed its price for sale for export at the beginning of the sales year and did not alter it to show fluctuations in the world market prices and thus it sort—it operated as an umbrella here.

Mr. RANSOM. Well, as I understand it, our export price is tied directly to our domestic price. This is the umbrella, the fact they are rigidly together.

The amount of the domestic subsidy governs the export price. This overrides——

Senator JORDAN. You have that exactly backward. Your price to the domestic mills is geared exactly to the world market; isn't that correct? That is exactly correct. The world market price is what the mills, that is what they would sell it to Japan or any country. That would be the same price as the price to the domestic mill.

Mr. RANSOM. I believe the law says the export cotton can be no cheaper than the domestic, it has to be the same. This is overriding, all this other language is immaterial when you get down to the law because it says they have to be the same.

Senator JORDAN. Well, one price cotton is one price cotton.

Mr. RANSOM. Right. It is one price at average location in the United States, average location in the United States. It is not one price. It is a different price at every location.

Senator JORDAN. That is true. If you can get the Tariff Commission to just take care of that for us we will settle on that.

Senator MILLER. I would like to, if I may, point out that apparently with this \$15-a-bale differential, it did not prevent the imports from increasing last year. I believe the chairman read that the import figure had increased.

The CHAIRMAN. That is the import of cotton goods.

Senator MILLER. Yes, so the fact that these foreign producers or manufacturers had \$15 differential to start out with didn't prevent them from increasing their imports here.

The CHAIRMAN. No, I think the figures I placed in the record last year indicated that the foreign textile mills used more and more man-made fibers.

Senator MILLER. The figures you have there, Mr. Chairman, show an increase in imports by bales.

The Chairman. By 72,000 bales over the previous year.

Senator MILLER. That would seem to indicate that the \$15 differential didn't deter them. In fact, they increased in that period of time.

Mr. RANSOM. Well, the \$15 would be only on American cotton. Of course, they could buy cotton from some other country and it wouldn't be there.

Senator MILLER. Are you suggesting that by moving that \$15 differential we would export more raw cotton?

Mr. RANSOM. No, look what I am suggesting is this: that if the market price of cotton is 29 cents and you put a \$30 bale of subsidy on it you are offering American cotton roughly for 23, 23½ cents in export. It is a lot cheaper than 25.05 and you are going to sell cotton at this rate. You are going back to where we should be on export. I don't know any other way to sell cotton exports than to sell it on price and we have got to move in this direction or we are dead.

Senator JORDAN. Mr. Chairman, may I comment a little bit on that point there?

I think it is important to get this in the record.

We have rightly a very strict policy on importing into this country which all these cotton people know, except a little bit of long staple which is Egyptian and Peruvian. When the CCC sets a sales price, I don't care what the price is, 24 cents, 23½ cents, whatever it might be, at the first of the year that is the price we are going to export at.

Well now, that price is set. All the foreign mills go out to Brazil, Mexico, and elsewhere and buy all the cotton they can buy below our set price until they have bought up all there is and then they come in and buy the rest of what they need from us.

That is just that simple and just that easy. If we followed the world market up and down we wouldn't lose all those exports.

The CHAIRMAN. You know it will be suggested or it has been suggested in the past to this committee that we have comensatory payments. There would be no loans but cotton could be sold for whatever it will bring and pay the difference to the farmer. That is, the difference between the support price and whatever the cotton would bring. It is a program similar to what we have in operation on wool. I presume we will have some testimony presented to us to have a program of that character. What would be your position on that?

Mr. RANSOM. Senator, we would be very much opposed to this just from this basic point of view. Anytime any group, it doesn't make any difference whether it is farmers or not, allow his commodity to be priced substantially under their cost of production and depend upon a Government check for the rest of it you are in real trouble. You are talking about a sick industry; you are really sick when you go this route. I will tell you this, if that is the way cotton is going, I don't want any part of it. There is just no future in there for a man who really wants to go out and try to raise cotton. It just won't work.

The CHAIRMAN. Any further questions?

The committee will stand in recess until 2 this afternoon.

(Whereupon, at 12:35 p.m., the committee recessed to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Without objection, there will be placed in the record at this point a statement by Mr. R. S. Tapp, president of the Texas Cotton Association; also a letter dated June 7, 1965, addressed to me as chairman of the committee, by Mr. Dwight H. Owen.

(The documents referred to follow:)

STATEMENT FILED BY R. S. TAPP, PRESIDENT, TEXAS COTTON ASSOCIATION, LUBBOCK, TEX.

My name is Raymond S. Tapp. I own and operate R. S. Tapp & Co., a cotton merchandising firm in Lubbock, Tex. This year I have the privilege of serving the Texas Cotton Association as their president. This 54-year-old organization is composed of cotton merchants and allied industries whose business is to channel cotton from the producer to the ultimate consumer, through the spinning mills of the free world.

Today we are faced with the critical problem of a 14 million bale surplus of a fiber that the world would have absorbed, if only the price structure had been allowed to function free of Government fixation. It has been made quite clear by economists of the USDA that if a program similar to the one now being administered is continued, American cotton exports will practically disappear within 5 or 6 years—and we will be raising only enough cotton for domestic consumption. This year, the domestic consumption is estimated at about 9,400,000 bales. I am told by those in the textile business that domestic cotton consumption runs in cycles, and that we are now on the high side of this cycle. Also, I am told by these experts that we can expect no permanent sizable rise in consumption from these figures in years to come. There appears to be some thinking in the USDA that in 5 or 6 years, foreign growth will expand to sufficient proportions to supply the entire outside world. We of the

Texas Cotton Association are not prepared nor willing to accept this as inevitable. It would mean economic ruin for our State, which depends so much for our prosperity on the 4 million bales of cotton we produce. One reason we of Texas are so concerned with the mounting surplus and diminishing exports is that Texas cotton is primarily called upon to fill the export requirements. About 55 percent of the unconsumed portion of this year's entire free world production will be 1964 crop Texas cotton which is in Government stocks. This is a frightening fact for the thousands of Texans who depend on this fiber for their livelihood. This percentage is based on figures contained in Under Secretary Murphey's testimony on May 26 before the House Committee on Agriculture and on the ASCS release of June 9 concerning current crop loan stocks.

The world price of U.S. cotton today is determined by the price acceptable to over 50 foreign growing countries, the price of substitute materials (both in existence and yet to be invented), and the surplus disposal steps undertaken with respect to existing CCC stocks.

Neither nonrecourse high loans, nor drastic allotment cuts, will long postpone the day of reality for American cotton. Cotton production has consumption as its sole excuse for existence. It is that simple. Even though we have seen increases in domestic consumption, this has been more than offset by the decline in exports.

Because of the unrealistic above-market support programs, cotton is being produced with the loan price viewed as a terminal point instead of striving for ultimate consumption. There are many who believe when cotton is put into the form A loan or form G pool, it is the same as selling to a merchant who must see that it ends up in a spinning mill. This, of course, is erroneous as this cotton has only added to the storage surplus of Government-owned stocks and has helped push us to the point of facing complete loss of our export markets.

We of the Texas Cotton Association offer for your consideration the following proposals which we sincerely feel will tend to reverse the trend of diminishing markets and mounting surpluses. We also firmly believe this can be accomplished without injury to the producer's income and at a substantial saving to the U.S. taxpayer.

(1) the price of American cotton must be left free to respond to world market mechanism without any attempt at price edict by the Government. (This is necessary so that the present price umbrella will not be available to foreign growth competition * * * and will tend to stop the expansion of acreage in these countries.)

(2) The difference between this free market price and the price to the producer should be determined as a separate issue and the payments he receives should be made directly and without discrimination for operational size and efficiency. This payment should be adequate to guarantee the producer a fair and reasonable price for his product. (We believe this can be done by using the previous week's spot quotation price, and paying the producer the difference between this figure and the reasonable price predetermined by the USDA.)

(3) The present 16 million acre allotment must be maintained and additional acreage allotted as we regain our foreign markets. (This is a very important point if we intend to let the world know we are determined to regain our fair share of the world markets. This will also provide further discouragement to foreign growth expansion plans.)

(4) Existing Government stocks must be insulated from the market and completely eliminated over a reasonable period of time according to an orderly legislated plan so as not to interfere with marketing of the current crop under normal conditions.

It is our sincere belief that the farmer must maintain a healthy income in order to assure continued economic growth for all segments of American life. In order for him to do this, we feel it necessary that the Government must share the responsibility just as it does in other fields such as airlines, shipping companies, minimum wages for labor, and other subsidized segments of our economy. It is grossly unfair to ask the American farmer to market his products without subsidies while he is forced to live and purchase equipment in a world of subsidies.

If the proposals we have offered are incorporated in new cotton legislation, we are confident the cotton merchandising organizations will be able to distribute each year's crop in its entirety, either into consumption or into privately held stocks that will eventually be consumed.

CRANSTON, R.I., June 7, 1965.

Senator ALLAN J. ELLENDER,
Chairman, Senate Committee on Agriculture and Forestry,
Washington, D.C.

MY DEAR SENATOR ELLENDER: This is to inform you that the company appreciates the opportunity of being heard by your committee. According to Mr. Mouser, chief clerk, we are scheduled for June 23, in the afternoon.

The decision has been reached not to pursue the idea of a subsidy to the independent bleacher, printer, dyer, or finisher, providing that the processor or any other company or subsidy with which it is financially affiliated, does not receive a subsidy under the One Price Cotton Act. It is apparent that the belief of many in Congress is that payments will undoubtedly be made to the grower of cotton rather than to the weaver in regard to any extension of one price cotton. We cannot recommend this decision too highly.

We deeply appreciate your consideration of our proposal, however, circumstances are such that further reconsideration need not be given to it. It is our firm conviction that one price cotton should be continued and it is our feeling that if it is not, the effect upon the cotton industry will be extremely detrimental.

Respectfully yours,

CRANSTON PRINT WORKS Co.,
DWIGHT H. OWEN,
Director of Industrial and Public Relations.

The CHAIRMAN. All right. Mr. Kempner, will you step forward, please?

Will you identify yourself for the record, Mr. Kempner?

**STATEMENT OF HARRIS L. KEMPNER, PRESIDENT, AMERICAN
COTTON SHIPPERS ASSOCIATION, GALVESTON, TEX.**

Mr. KEMPNER. Yes, sir.

My name is Harris L. Kempner. I am president of the American Cotton Shippers Association which, in conjunction with its affiliated regional organizations, comprises nearly all the private handlers of cotton in the United States and a number of allied industries. I am also president of the H. Kempner Cotton Co. of Galveston, Tex., which has been in the business for over a hundred years, both as merchants and producers of cotton.

The American Cotton Shippers, after long consideration has unanimously adopted a set of principles regarding national legislative policy which I would like to read to you.

1. It is the primary purpose of the American Cotton Shippers Association to sponsor and support legislation which will move cotton into the channels of trade at prices which will be determined by the law of supply and demand;

2. Any difference between free market price and the price to the producers should be determined as a separate issue and any payments which might be made to sustain farmer income should be paid directly to the producers;

3. Our policy recognizes that the demand for cotton is elastic over the long term, and further recognizes that without consumption there is no economic justification for production. Essentially, annual consumption must equal annual production and there is no economic justification for a policy which does not sell for consumption substantially all of each year's production;

4. Any loan rate which might be established should be at a protective level which will result in a price designed to keep cotton out of Government-owned surplus. Recent policy has resulted in alarming

foreign competition and a continuous increase in foreign cotton acreage with a declining U.S. cotton acreage. Our policy, as outlined above, would tend to reverse this trend.

The CHAIRMAN. I presume you are going to discuss each of these four points?

Mr. KEMPNER. I think, Senator, my testimony will, and if not, I will be delighted to have you go back to it.

The CHAIRMAN. I was going to ask you a question, but I do not want to anticipate what you have to say.

Mr. KEMPNER. Certainly, sir.

The CHAIRMAN. Proceed.

Mr. KEMPNER. As experts in the distribution of the American cotton crop to cotton consumers throughout the world, we are convinced that the root cause of our present intolerable cotton situation is that the price of cotton has been fixed by governmental edict. This has made it impossible for American cotton to compete in the world markets against competitive growths and synthetics. The vehicle used for Government price fixing has been the above-market, nonrecourse loan. Through this procedure the United States has provided a price umbrella under which foreign growths have expanded their production and distribution. In contrast, American cotton has been moving into the Government loan with consequent buildup of stocks and reductions in acreage. We have become the residual suppliers of cotton in the world's market; we have not shared in the worldwide growth in cotton consumption; the costs of the program to the Government have risen; we have lost badly needed foreign exchange—at least \$2 billion over the past 10 years—and the Department of Agriculture has said that continuation of the present condition will entirely eliminate our exports within a few years.

To break out of this regressive and self-defeating cycle, the price of American cotton must be freed of Government edict and must be made subject to the law of supply and demand operating in the marketplace. In other words, the price mechanism must be allowed to function and the fixing of price of American cotton by governmental decree must be stopped.

We are convinced that unless and until the price of American cotton can be set by the market mechanism on a day-to-day and hour-to-hour basis, there is no way in which American cotton can regain on a permanent basis its proper share of the world and domestic markets. If we fail to accomplish this, the future holds only a dismal vista of constantly increasing surpluses held in Government stock, constantly decreased production, constantly augmented expenses until the whole program breaks down.

You will note that our legislative policy also calls for sustaining the farmers' income at a level sufficient to enable farmers to maintain their present efficient operation and to give them an American standard of living. But, it is obvious that the above-market loan which has been the vehicle for sustaining farmers' income will inevitably and very shortly bring disaster to the very farmers it is designed to help because of the basic and elementary fact that we cannot continue for very long having the Government pay farmers to grow cotton to put into the warehouse for storage at Government expense.

The most efficient manner in which to accomplish the desired ends; namely, (a) protect farmers' income, (b) allow the selling price to be determined by the market mechanism, (c) permit cotton to be sold at the same price at home and abroad, is to abolish the loan and set up a procedure of direct payments to the farmer which would return him a fair income for his labor and investment.

The farmer would sell his crop when and how he pleases, using all his skill to get the best price obtainable for his particular cotton and then a payment would be made to him representing the difference between the average of the spot markets of the preceding week and the designated fair-income price. For example: if it were decided that 29 cents a pound represented a reasonable price-income scale (as is presently the case) and if a given farmer sells his cotton the week before at an average spot market price of 21.60 cents, then that farmer would receive a direct payment from the Government of 7.40 cents per pound, or \$37 per bale, multiplied either by the entire amount he sold in that week or the domestic allotment portion thereof, as the law may provide.

This is a sure way to protect farmers' income and at the same time leave the buyer of his cotton free to meet day-to-day competition of synthetics and foreign growths in the markets of the world, which is essential if his cotton is to be marketed. In the past, efforts to sell American cotton have been defeated because the loan figure which was set was not only a minimum price below which American cotton could not be sold but was also an umbrella for all competing growths which could sell freely slightly under that price. It is our firm belief, however, that, under our program, merchandising organizations handling our cotton, both private and cooperatives, will be able to move the entire crop into the channels of trade for consumption and not into storage at Government expense. Domestic mills would continue to buy U.S. cotton on the same competitive basis as foreign mills.

This program would permit the futures market to function and would provide farmers, merchants, and mills with a tried and proven system for hedging their cotton. This will provide needed elasticity in marketing cotton and will also enable buyers of both cotton and cotton cloth to operate with a confidence which is absent under a pricing system controlled by Government decree and subject to arbitrary price fluctuation, sometimes of large proportions.

It must be recognized, too, that other measures must be taken—at least on a temporary basis—to overcome the problems built up over the years of the above-market loan. We feel that to permit moving the current crop into consumption each year, the following measures must also be taken:

CCC RESALE PRICE

1. As of August 1, 1966, the Government will own between 10 and 12 million bales of cotton and for at least a few years the market mechanism must be protected by legislative action from any possibility that these stocks will compete with the annual production. As an example of the kind of solution to this problem which we have in mind, we would suggest that the legislation provide that these stocks be salable in segments, perhaps as follows: One million not below 23 cents; another million not below 23.50 cents; another million not below 24 cents; another million not below 24.50 cents.

And the entire balance at, say, not under 25 cents.

The CHAIRMAN. Over what period of time?

Mr. KEMPNER. Sir, if the law is 2 to 4 years' duration that should be, this inhibition should govern, for the duration of the law because you will have a price mechanism release of this cotton, if there are crop failures or if there is a sudden unexpected demand for cotton because of world conditions which have arisen in the past. If the market will justify the release of the cotton it will work. I cannot tell you from my own knowledge that it will take 4 years to dispose of the stocks or they will be disposed of in 4 years, but you have got to protect, if you want to sell the annual production you must protect those sales from competition with this enormous stock of cotton.

COTTON

The CHAIRMAN. Well, to what extent would you suggest that the production of cotton be curtailed?

Mr. KEMPNER. Well, as to the extent of the curtailment, I do not think I would be too competent to suggest a specific figure.

I do hold to the theory that a curtailment which interferes with the operation of efficient farming, people who can sell their cotton in the world market in competition with the rest of the world, would be disastrous.

I think a cut that would deprive our economy in the cotton tier States of revenue from the physical movement of cotton through that area would be very difficult to bear, and would be much more costly in its social effects than would come from payment of subsidy to the farmers on it.

The CHAIRMAN. Would you suggest a curtailment of the number of acres that can now be planted?

Mr. KEMPNER. I think some such curtailment will probably be necessary to get out of the mess we are in; yes, sir, much as I hate to admit it.

The CHAIRMAN. Well, that would seriously affect the income of the farmer, don't you think?

Mr. KEMPNER. Yes, sir; it would, and it would also affect, as I have just said, Senator, not only the farmer but all the industries. I mean the country store, people who work on the railroad, the trucklines, and garages, all those people, part of whose living comes from the physical movement of this crop. And I question very much whether the actual savings to the Treasury of the United States overcuts, by relieving themselves of paying the compensation payments on that number of bales, would not be overbalanced by the evil social effects which I have just described. So I would like to see the very smallest type of cut.

The CHAIRMAN. Well, I presume that your plan will provide for no loans?

Mr. KEMPNER. That is correct, sir.

The CHAIRMAN. Simply let the cotton find its price at the market, at whatever price it will sell for?

Mr. KEMPNER. That is right.

The CHAIRMAN. And let the Government pay the difference between the support price up here and whatever the market will bring.

Mr. KEMPNER. If I may enlarge on that—yes, sir.

The CHAIRMAN. To what extent do you believe that cotton sales could be increased if such a system were followed?

Mr. KEMPNER. Sir, we have not seen—since the loan has been in effect we have hardly seen a time except under threat of war where the cotton pipelines have been full. Not since the early days of my experience in the cotton business have we seen a merchandising operation which represents a merchandising operation. There is no reason in the world for anybody to buy a bale of cotton today that he does not need practically tomorrow, because under this loan system the price of cotton cannot go up. It has got to go down the way we are operating, and we have operated under this high nonrecourse loan.

When you get back to the point where people will fill their pipeline, when the merchants will function as a supplier of the mills instead of having the loan function as the supplier of the mills, in my opinion, you will have no difficulty in selling any normal crop of cotton every year if it is protected from the competition of the previously acquired stocks.

The CHAIRMAN. When you say a normal crop——

Mr. KEMPNER. 15 million bales.

The CHAIRMAN. 15 to 16 million bales?

Mr. KEMPNER. 14, 15, 16; this would depend on the textile cycle and numerous other factors.

The CHAIRMAN. As I recall the hearings when this committee reported the present law, it was contended that if the domestic cotton mills were permitted to buy cotton, raw cotton, at world prices that the tendency would be for the mills to carry much of this load, much of the cotton that would otherwise go into the loans.

Do you know the extent to which the mills did carry or are now carrying any of the cotton?

Mr. KEMPNER. No specific knowledge, sir. But as a general basis of approach, I would think they would carry the minimum. Why should they carry more? It is always there for them in the Government stocks.

The CHAIRMAN. But that was alleged, though. When this bill was enacted last year, it was alleged that the mills would carry from 500,000 to 700,000 bales of cotton. That was the argument made, and that has not happened.

Mr. KEMPNER. Does anybody know what the mill stocks are?

The CHAIRMAN. We will put it in the record.

Mr. KEMPNER. Because that would not be a very big carryover for consumption of 9 million bales, you see. That would be——

The CHAIRMAN. That is in addition to their regular—in other words, what they would normally carry under the program prior to the one enacted last year, it was alleged that the mills would carry from 500,000 to 700,000 bales of cotton, and relieve the Government of that much storage expense. But that has not happened.

Senator JORDAN of North Carolina. Mr. Chairman, that figure can be easily established—the exact number of bales in textile warehouses.

The CHAIRMAN. I am in hopes that someone will supply that.

Senator JORDAN of North Carolina. That can be gotten very easily. But I would think the textile mills are carrying about all the cotton they can store in their own warehouses. They are limited as to the

amount of cotton they can store and, of course, when you buy that cotton they have to pay cash for it, and carry insurance and pay taxes on it when it comes in their warehouses. But if they leave it in the Government storage they pay 5 points a week, isn't that it, 20 points a month—is it every 2 weeks?

Mr. KEMPNER. Yes, sir; I think it is. It is approximately correct.

Senator JORDAN of North Carolina. About 20 points a month. It costs them 20 points a month, so the buyer is actually paying the storage costs anyway.

Mr. KEMPNER. Sure.

The CHAIRMAN. Not the carrying charges?

Senator JORDAN of North Carolina. Yes; he is.

Mr. KEMPNER. Part of it, Senator.

The CHAIRMAN. That is right; part of it; just the storage.

Senator JORDAN of North Carolina. He pays the interest.

The CHAIRMAN. Not so far as the interest is concerned, Senator, because if it is sold at the world price, that is what the law provides.

Senator JORDAN of North Carolina. I happen to know something about interest because I pay it. They pay 20 points a month for interest on a bale of cotton, and storage on it.

(The information is as follows:)

Stocks held by consuming establishments

	<i>Bales</i>
May 1965-----	1, 776, 716
May 1964-----	1, 479, 762
May 1963-----	1, 549, 600

Source : U.S. Census Bureau.

Mr. KEMPNER. Should I proceed, sir?

The CHAIRMAN. Yes, sir.

CCC RESALE PRICE

Mr. KEMPNER. Use of such an approach to trigger release of these stocks will assure buyers that they need not fear that the stocks of the Government will be used to depress the price of cotton, but at the same time these stocks would be made available in case of crop disaster or some world situation that would call forth an unexpected demand for cotton.

We would also suggest that exchanges be permitted between stocks held by the Government and stocks of the current crop. A situation might well arise where there would be a demand for a certain type of cotton that was not available in the current crop but was available in the Government stock. We would permit bale-for-bale exchange of cotton of other qualities out of the current crop with appropriate adjustment so that no possible inquiry for American cotton would be refused if that quality were anywhere available.

COTTON

2. We recognize that some sort of limitation of cotton production would be necessary for several years until the position of U.S. cotton is reestablished in the world market. We do not have any proposals as to how this can best be accomplished.

The CHAIRMAN. That won't be of much help to us because you come in here with a proposal which, I think, ought to be in a more or less concrete form so that we can have discussion on it. I am very much disappointed. Of course, this is not peculiar to cotton, but as to all commodities. People come here and tell us what should be done, but they do not tell us how it should be done, and when you examine them as to how it should be done, then you find a diversity of opinion among those who make their proposals.

If the people who produce cotton and who handle it and who use it are unable to get together, I wonder how in the world the committee will get together. That is the thing that is very frustrating.

Mr. KEMPNER. I was going to say, I can understand how frustrating it could be, and I will say in defense of this statement that is the only one we have left open. We would like to be excused from passing on that thorny subject.

The CHAIRMAN. So you just leave it to us.

Mr. KEMPNER. Yes, sir.

3. We believe that in order to secure orderly marketing the Department of Agriculture's proposed amendment No. 2 to H.R. 8149 should be adopted. This amendment would require the Secretary to extend the period for consumption or exportation on old crop cotton beyond July 31, 1966; or, alternately, make payment for raw cotton in inventory as of July 31, 1966. If some such measures are not taken, purchases of 1965-66 cotton will come to a standstill early in that crop year.

The program here outlined meets the tests for enabling the cotton industry to flourish once again, but unfortunately it will not be cheap. It is difficult to estimate very precisely the costs of our proposed program because a guess has to be made as to the average level at which cotton will sell during the period of the law. Given these uncertainties, we can nevertheless talk in terms of a realistic range of possibilities.

Informed opinion indicates that, if our proposals are adopted, the average—and I would like to note that the word "average" is underlined—price of cotton in the spot markets over the first 2 years of such a program would be somewhere between 21 and 24 cents. (It would tend to the lower end of this range at the beginning of the period as the market adjusts to the free-pricing system.) Assuming the lower price—an average price of 21 cents—and assuming further that a price of 29 cents is taken as a fair income level for farmers and that the payment is made on the entire allotment of the farmer, then the cost would be \$40 a bale which, on a 14-million-bale crop, is \$560 million. (If the payment were made only on the domestic allotment portion of the crop, then this cost would be in the neighborhood of \$370 million.) If domestic production were reduced by approximately 2 million bales, as provided in the Cooley bill, the cost would be \$480 million, if based on the entire allotment. Of course, with lower production, the average price would be higher and the cost to the Government would be commensurately lower. If cotton sold at the high end of the range—24 cents—the cost would be \$350 million for a 14-million-bale crop and \$300 million for a 12-million-bale crop.

With cotton moving into the market instead of into Government stocks, the current carrying charges of \$120 million would not increase

and would, in fact, decline as stocks are worked down. And further savings would accrue by avoiding the acquisition of cotton by the Government at prices significantly above the prices at which it can be resold.

Correction of the present situation cannot be painless or cheap, but it will certainly be a great deal cheaper than the continuation of what we have now.

Our program follows Secretary Freeman's basic recommendation. It will enable the market to determine prices, and American cotton will become competitive and will regain its place in the world markets. Only on this basis can a healthy, expanding cotton industry be built.

The CHAIRMAN. Well, if the plan that you suggest were followed, and with the higher cost of production in this country then our competitors, what would be your guess as to the amount that the textile mills of the world would have to pay for cotton?

Mr. KEMPNER. Well, our best guess would be that it would settle down over a period of 2 or 3 years at somewhere around 22 or 23 cents, about what it is now. But, Senator, and this is the point I am very anxious to emphasize, if you free cotton of price restrictions, and let it be determined in the marketplaces of the world what the price would be, then you will have buying of cotton by people, both mills and speculators, on the theory that this price can go up, and they want to protect themselves against it.

If you set the price by Government decree or set it by forced sale of Government stocks, then all those buyers will disappear because there will be no chance of its going up. It has got to go down.

I make this point because, in my opinion, it is possible that cotton under this scheme would sell higher than it is now. It is probable it won't sell much higher, but if you try to preserve that price level by setting the price by decree, by fixing a loan price or fixing a type of flexible subsidy, which was suggested here this morning, you will defeat that whole purpose. You will drive right out of the market the very people you need to keep the price up.

The CHAIRMAN. Well, now you envision in your proposal, I presume, acreage controls.

Mr. KEMPNER. Yes, sir.

The CHAIRMAN. The same as we have now?

Mr. KEMPNER. Yes, sir.

The CHAIRMAN. That it might be necessary to further curtail the acreage——

Mr. KEMPNER. Yes, sir.

The CHAIRMAN (continuing). That is now planted?

Mr. KEMPER. Yes, sir.

The CHAIRMAN. Depending on production?

Mr. KEMPNER. Yes, sir.

The CHAIRMAN. You further say it would be necessary also that this cotton not be put in any kind of loans; that the farmer would be free to sell at whatever the market is, and Uncle Sam would have to pay him the difference between what he obtains and what the support price is.

Mr. KEMPNER. Just as he does now under the loan.

The CHAIRMAN. I wanted to ask you awhile ago when you suggested that you were going to discuss the four different points you made on

page 1, what did you mean when you said that any loan rate which might be established should be at a protective level which will result in a price designed to keep cotton out of Government-owned surpluses? How would you accomplish that?

Mr. KEMPNER. You would have to make the price so far below the loan level—you would have to make the loan, excuse me, so far below the world level of prices that cotton would move into the loan only in the case of a disaster. It would be called a protective loan and it is a clumsy——

The CHAIRMAN. Disaster to whom, the grower?

Mr. KEMPNER. To whom?

The CHAIRMAN. To the grower or the taxpayer?

Mr. KEMPNER. Disaster to the price system. It is a clumsy way to do it. It is much better not to have the loan at all. But if, in the wisdom of the Senate or the House, it is decided that a loan is necessary, then it must be very low indeed. Otherwise we just perpetuate the present situation.

The CHAIRMAN. What would be your suggestion?

Mr. KEMPNER. 18 cents.

The CHAIRMAN. 18 cents?

Mr. KEMPNER. Yes.

The CHAIRMAN. So if cotton went down to 17 cents, the producers could put it to loan.

Mr. KEMPNER. Yes. But, you see, even under the scheme I prefer of no loan, even if cotton went to 17 cents, which is highly unlikely, the producer would still be protected because he would still be paid the difference between the average price of cotton and his income level. The loan would not be necessary to him.

But there is a psychological feeling, I think—I think it is psychological—people have been leaning on this crutch for many years, and although they are perfectly able to walk with the addition of this new orthopedic equipment which I recommend, that is, the direct payment, they probably might have a psychological feeling of being deprived of something if their crutch is taken away.

The CHAIRMAN. Well, to what extent do you think that this proposal which you are making would cause more cotton to be used rather than manmade material?

Mr. KEMPNER. Fibers.

The CHAIRMAN. Yes.

Mr. KEMPNER. Certainly it would enable—I think that is a question that is extraordinarily difficult for one to answer because, as you know, Senator, as you explained this morning, there is a whole range of manmade fibers which is not price competitive with cotton. It has a technical preference or a technical competition, the so-called——

The CHAIRMAN. When you say “technical competition” it can be substituted?

Mr. KEMPNER. I mean that people—it is used for purposes and for specifications that cotton does not fill as well. I am thinking of the noncellulosic fibers.

As far as directly competitive ones, the rayon type ones, obviously letting a free market for cotton determine the price will enhance cotton's ability to compete with those synthetics. Research and promotion is the thing that is going to drive out the noncellulosics, not price, if I understand the situation correctly.

The CHAIRMAN. They have been doing a lot of that, but yet in practically all counties in Europe that used a lot of cotton in the past, they are now converting to the use of manmade fibers.

Mr. KEMPNER. Yes, sir.

The CHAIRMAN. And certainly the price of cotton was not their trouble, because you could buy it at world prices and much cheaper than we could produce it, and yet with all that advantage the use of synthetics in all those countries percentagewise was as great as ours or maybe greater.

Mr. KEMPNER. Sir, there is one thing—I beg your pardon.

The CHAIRMAN. I will ask that there be placed in the record excerpts from these tables which were put in the record last year to indicate that it seems that irrespective of the price of cotton, synthetics are used in most countries to a greater extent now that they have been in the past, notwithstanding the cheapness of the cotton.

(For information referred to above, see page 720.)

Mr. KEMPNER. May I call your attention to something?

Senator JORDAN of North Carolina. I would like to say a word in that connection. That is quite true. But you have to remember that all these foreign countries have had a dollar problem. That is that balance-of-payments business. For instance, Norway, Denmark, and Sweden have always been exporters of fibers products.

The CHAIRMAN. If that is true, his argument that now you sell more cotton abroad is not going to happen.

Senator JORDAN of North Carolina. There can be some. They manufacture it with their own labor in their own country, and they make good fiber, so they are producing a fiber that they can produce, where they cannot produce cotton, to keep the dollars at home, and put their own people to work, and it is cheaper to them than cotton almost at any price.

Mr. KEMPNER. May I endeavor to give another answer to this one? In the first place, you must remember that—you speak of buying cotton at the world price—this world price thing is a very deceptive concept. The only definition I have seen of the world price of cotton that makes any sense is the world price is about a cent to 2 cents below whatever price the American Government has fixed.

The CHAIRMAN. That is because we had ours fixed by the support price.

Mr. KEMPNER. That is it. So it is not strictly true that the Europeans could buy or the rest of the world could buy cotton at the world price because they bought it at a price fixed by our program. That is No. 1.

No. 2, as of today, as of recent years, this balance-of-payments problem is no longer an inhibition to the use of American cotton. As we all know, the balance-of-payments problem, the shoe is on the other foot, and all these countries have free entry of cotton. This will be a method of helping our balance-of-trade problem.

What I think the Senator was referring to is the effort of certain producers of cellulose to get their own foreign exchange rather than the necessity of the buyers of this material to buy something in non-dollar currencies because certainly the great textile consuming countries of the world, Germany, France, Italy, Japan—Japan should be first—have ample foreign exchange to buy our cotton.

The CHAIRMAN. Any further questions?

Senator MILLER. I would like to ask a question, Mr. Chairman.

The CHAIRMAN. Proceed.

Senator MILLER. In your statement, Mr. Kempner, on page 3, you said the farmer will sell his crop when and how he pleases, and this is what I wanted to talk about, using all his skill to get the best price obtainable for his particular cotton.

What incentive will there be for him to use all of his skill if he is going to get the difference?

Mr. KEMPNER. I am very glad indeed you asked because I made a delicate hint there that I am glad to bring out.

The money paid to him will be determined, according to our scheme, by the difference between the average of, let us say, the 15 spot markets the week before, and the income price fixed by the Secretary. If a farmer in the proper exercise of his technical ability raises superior cotton, raises cotton that is more in demand by the mills, he will get a premium for that cotton which will remain with him as a reward for this contribution, because the average reflects not only premium cotton but also inferior cotton, and the man who grows inferior cotton which, unfortunately, the loan has greatly encouraged, will get the penalty for it.

Now, his ability to market it on a day-to-day basis or to the best buyer is of a similar character. His own specific price does not affect the subsidy payment which will be based on last week's averages—not his selling price.

Senator MILLER. Would it be feasible to provide for payment of the difference between the average of the 15 spot markets and what he gets for it, pay the difference minus, say, 1 or 2 cents a pound?

Mr. KEMPNER. Pay the difference between the 15 spot markets and the——

Senator MILLER. What he sells it for.

Mr. KEMPNER. You do not mean what he sells it for, do you? You mean what the income price should be or am I misunderstanding your question?

Senator MILLER. All right, yes; and what the income price would be.

Mr. KEMPNER. Oh, yes. You can——

Senator MILLER. What is wrong with using that approach?

Mr. KEMPNER. Well, there is nothing wrong with it, it is just a question of the determination of what the farmer's income should be. What you could do instead of making that calculation, you just set the income price a cent or so a pound lower.

Senator MILLER. That is right.

Mr. KEMPNER. This is the determination.

Senator MILLER. But the idea being that he goes out and actually does work to try to produce superior cotton and use his skill.

Mr. KEMPNER. I think you can rely on the natural economic incentives to do that which you cannot do under the loan. I mean, you have a situation today in which California, to cite the San Joaquin Valley, is raising premium cotton, and they are practically independent of all these programs. Their cotton sells in the world market.

There are other areas which I will not name, which have in these years turned around and raised cotton for the loan, which is not de-

sired by the spinning mills of the world, but it has a good yield on his farm, on their farms, so they have a net gain.

Turning this around as this scheme does, and let the man who has cotton which is in demand by the mills and for which they will pay a premium, and he has his reward for it. You won't need to do anything else. Farmers are very quick to follow that dollar, to my knowledge.

Senator MILLER. This is so. But if you give all of them the differential between what is the target price and the average of the 15 spot markets, then even the poorest one is going to be assured of that level.

Mr. KEMPNER. That is true, sir.

The CHAIRMAN. Excuse me, would that be true? Wouldn't it be sold according to grade?

Mr. KEMPNER. Of course, I was just going to add that answer to it.

The CHAIRMAN. Certainly.

Mr. KEMPNER. Senator, he would get the basic—may I, perhaps, clarify this for you, he will get the basic price. For example, the 15 spot markets is a quotation for middling inch, which is a basic description. Now, Low Middling 15/16, for example, will probably today sell 5 cents a pound, \$25 a bale below that, and the California—well, we had better not take that because that is completely distorted—but a bale of strict middling inch and 3/32, probably sells 300 to 415 or 420 points above that.

The CHAIRMAN. Above that 1 inch.

Mr. KEMPNER. Above that Middling inch. And if he sells his cotton for less than it is worth, he takes the loss. His payment will not increase.

The CHAIRMAN. So what the farmer would probably sell his cotton for would be for whatever that average is, and in respect to the quality.

Mr. KEMPNER. Plus or minus the quality, so he gets his penalty built in and his reward built in, if I make myself clear.

Senator MILLER. I see. And is the target price going to be broken down similarly?

Mr. KEMPNER. No, sir; because it all comes—it is as if, sir you had every ashtray, there was an average price for ashtrays that you were going to get a reward on, and somebody came in with a piece in Boston gold or something, and you would get a premium for this, and for this you would get a discount. It would not make any difference. The spread would be there for everybody. But the actual reward and penalty would be built into the nature of the material.

Senator MILLER. One further question. What does the future hold under a program like this for getting the Federal Government and the taxpayers through the payment of the differential out? What is the future of it?

Mr. KEMPNER. Well, I would like to say this is the only possible way that we have been able to envisage where there is a chance to get the Government out. You can do nothing about this until the stocks have disappeared. You have what we call 30 years of error.

I came up here first and argued this question in the plow-up campaign in 1933, and we told them then what was going to happen with

this type of procedure, and they have gone on. It was cleaned up twice, once during the Second World War, and once after Korea, and then right on with this same type of approach, and this has built up vested interests, this has built up bad practices, this has built up tremendous competitive cotton growing all over the world, and this cannot be straightened out very quickly, as you can plainly see.

But once you allow cotton, the price mechanism to function on cotton, then you have a chance but I would not like to say that it is going to happen very soon.

Senator MILLER. This feature of selling Commodity Credit Corporation stocks——

Mr. KEMPNER. Not selling them.

Senator MILLER. 1 million not below a certain figure, the scale——

Mr. KEMPNER. Yes, sir.

Senator MILLER. That could be adapted to other programs than yours, could it not?

Mr. KEMPNER. Oh, yes; and there is nothing sacred about these figures, I may add.

Senator MILLER. I understand.

Now then, quite apart from the disposal of the CCC stocks, what is the future hope under your plan for getting the Government out of this business?

Mr. KEMPNER. Are you asking me, sir, if there will come a time when we can stop paying the subsidies to the farmer in any form?

Senator MILLER. I am asking you whether there will come a time, either when that will happen, or when there will be less necessity to do so——

Mr. KEMPNER. Well, I know——

Senator MILLER (continuing). Under your program as distinguished from under the program we have now, for example.

Mr. KEMPNER. Well, under my program cotton would be selling at its real value in markets of the world, determined by the law of supply and demand.

Senator MILLER. I understand.

Mr. KEMPNER. When this is done any farmer can tell whether it is worth his while to grow cotton or not if and when the Government in its wisdom drops or withdraws the subsidies. There is nothing inherent in the plan that will eliminate the subsidies. That is a matter for the decision of groups like this.

But you will be able to tell, and the farmer will be able to tell, whether he can compete with the rest of the world at those prices.

A lot of statements are made about the inability of the American cotton to compete in the world. I am not at all sure that this is universally true. I think there are areas in America that can compete. But until you know what the price of cotton is you cannot tell anything about it, can you? And the price of cotton today is as artificial a thing as I have ever seen.

Senator MILLER. No further questions.

The CHAIRMAN. Any further questions?

Senator RUSSELL of South Carolina. What percentage of our cotton production now is under an inch?

Mr. RHODES. The percentage ranges from 20 to 25 percent of the crop. It was 22.1 percent in 1964.

WOOL

The CHAIRMAN. Any further questions? Thank you very much.

Senator MILLER. Mr. Chairman, just before the witness leaves, I would merely like to call attention to the fact that under our wool program we do have the incentive approach along the lines I was earlier discussing with you, and I would like to have that reference in the record at this point. I am reading now from P.A. 621, the wool payment program, page 2, under "Incentive for Quality." There is a heading of "How Payments Are Made," and "Incentive for Quality."

I wonder if we could have that placed in the record at this point, showing how this approach has been used for wool? It is rather short.

The CHAIRMAN. Do you have it in specific form?

Senator MILLER. Yes.

The CHAIRMAN. The same thing would apply to cotton.

Mr. KEMPNER. It is the same thing.

Senator MILLER. The point is in my discussion with you earlier about the incentives and the differentials, that your answers are in line with our present program under the wool program.

Mr. KEMPNER. Yes, sir. I am sorry I did not make myself clear, but that is exactly in line.

The CHAIRMAN. We will place that part of the document you have in your hand, I think there is a paragraph or so, in the record.

Senator MILLER. There is one page. It says how payments are made and also incentive for quality.

The CHAIRMAN. We will put it in.

(The document referred to follows:)

THE WOOL PAYMENT PROGRAM

Agricultural Stabilization and Conservation Service, U.S. Department of
Agriculture

The wool program makes incentive payments on sales of shorn wool to encourage production.

The United States does not produce nearly as much wool as it uses, and Congress set the policy of encouraging production in the National Wool Act of 1954. The Congress based this policy on the fact that wool is important in the U.S. economy and in our national security.

The total amount of payments under the act is limited by the act to 70 percent of the duties collected on imports of wool and wool manufactures.

HOW PROGRAM WORKS

An incentive price for shorn wool is announced by the Department of Agriculture in advance of the marketing year. Then the producer sells his wool in the usual market channels.

At the end of the marketing year, the national average of the prices received by all growers is used to determine the percentage rate required to bring the national average of the prices received in the free market up to the incentive level previously announced.

This percentage is applied to each grower's net proceeds from his sales of shorn wool during the year to arrive at the amount of his incentive payment for the year.

HOW PAYMENTS ARE MADE

Assume that an incentive price of 62 cents has been announced and that shorn wool prices actually averaged 50 cents.

If a uniform flat payment of the difference were made, each producer would receive an additional 12 cents a pound over his sales return.

However, the 12 cents is converted into a percentage of 50 cents as the basis of payment, and each eligible producer receives an incentive payment equal to 24 percent of his individual sales returns for shorn wool.

Example A

Let's say that you sell 1,000 pounds of wool for 50 cents a pound. From the buyer you receive \$500 and from the Department of Agriculture you get 24 percent more, or \$120, making a total return of \$620.

Example B

But suppose that you sell for 70 cents a pound. The buyer pays you \$700 for your 1,000 pounds and the Department will pay you 24 percent more, or \$168, making a total return of \$868.

Example C

However, suppose your 1,000 pounds of wool sells for only 30 cents a pound. From the buyer you receive \$300 and from the Department of Agriculture you get 24 percent more, or \$72, making a total return of only \$372.

INCENTIVE FOR QUALITY

As you can see from these examples, the percentage method of making wool payments automatically adjusts for such factors as grade, quality, and preparation. It encourages producers to improve their wool and to get the best price possible in the marketplace. The higher the market price an individual producer actually obtains for his wool, the greater his incentive payment.

INDUSTRYWIDE OBJECTIVE

Early in 1964, an industrywide lamb and wool planning committee recommended practices for improving the quality of the domestic wool clip.

The industrywide objective is to improve the preparation of the domestic wool clip to provide users of domestic wools a raw material that is easy for textile mills to use. A poor clip requires extra work and unnecessary handling in the mill and does not compete well with man-made fibers and imported wools.

CAREFUL PREPARATION IMPORTANT

As developed by the industrywide committee, the program emphasizes the importance to both the grower and the industry of proper shearing and tying techniques; eliminating unscourable branding fluids, black fibers, tar, and chemical stain; avoiding jute and other extraneous contamination; separate packaging of tags, crutchings, face and hock wools; and improvement in the individual wool package.

Your county extension agent, marketing agency, or your grower's association has details on preparing wool to attract the best possible price.

PAYMENTS ON UNSHORN LAMBS

Support of pulled wool is provided to maintain normal marketing practices and avoid unusual shearing of lambs prior to marketing just to obtain a payment on shorn wool. This is handled by making payments on sales of unshorn lambs.

Rate of payment for unshorn lambs is announced at the same time as that for shorn wool. The rate is a fixed amount per hundredweight to reflect, on the average, the approximate weight of wool on the animals at the time of marketing. This average for the year is around 5 pounds per hundredweight of live animal.

Wool on lambs sold for slaughter is coarser and of shorter staple, on the average, than the U.S. shorn wool clip—hence pulled wool has less value per pound.

Here is an example of how the rate is calculated:

	<i>Cents</i>
Shorn wool incentive price_____	62.0
National average received by producer_____	50.0
Deficit_____	12.0
80 percent of deficit (to allow for lower grade and staple) (12 cents	
× 80 percent)_____	9.6
Wool (greasy shorn basis) per hundredweight of lamb (9.6 cents ×	
5 pounds)_____	48.0
Rate of payment (per hundredweight)_____	48.0

ADJUSTMENT FOR PURCHASED LAMBS

In the case of purchased lambs, the original producer and later feeder or breeder-owners share in the total lamb payment according to the weight gained by the lambs while owned by each.

This is handled by making a downward adjustment in the payment to a producer if his sale of shorn wool or unshorn lambs includes lambs or wool from lambs that he purchased unshorn. This adjustment in payment to a later owner is designed to eliminate duplication of the total amounts paid.

If the applicant shears the lambs or resells them unshorn, the downward adjustment in his payment is, in effect, the amount due the previous owner.

ELIGIBILITY FOR PAYMENTS

An applicant is eligible for payment if he owned for at least 30 days the sheep and lambs from which the wool was shorn or the unshorn lambs sold.

MARKETING YEAR

Beginning in 1964, the marketing year is on a calendar year basis. January 31 is the final date for applications.

The national average of the prices received by producers for shown wool during the calendar year will be calculated and the payment rates determined in March. The ASCS offices begin making payments shortly after April 1.

RECORDS NEEDED

Sales documents are the basis for payments under the program. The producer must support his application for payment on shorn wool with an account or a bill of sale showing:

- Name and address of seller.
- Date of sale.
- Net weight sold.
- Gross sales proceeds.
- Marketing deductions.
- Net sales proceeds.
- Other deductions, if any.
- Amount paid the grower.
- Name and address of the buyer or marketing agency.
- Signature of person issuing document.

On unshorn lambs, an application for payment must be supported by an account or bill of sale showing:

- Name and address of seller.
- Date of sale.
- Number of unshorn lambs sold.
- Liveweight of unshorn lambs sold.
- Name and address of buyer or marketing agency.
- Signature of person or firm issuing the document.

Producers must keep records of all their sales of wool and lambs and purchases of lambs for a period of 3 years following the end of the marketing year.

MOHAIR

A mohair payment program, also authorized by the National Wool Act, is handled in the same manner as that outlined for shorn wool. However, except for the 1962 marketing year, the national average price received by producers for any given marketing year has been above the supported price and payments on mohair have not been required.

SELF-HELP FEATURE OF PROGRAM

The National Wool Act authorizes growers to organize and conduct advertising and sales promotion activities, financed by deductions from their payments.

Extensive programs of advertising and sales promotion for both lamb and wool are being carried on by the American Sheep Producers, Inc., established by wool growers and grower organizations for this purpose. Their activities are designed to improve demand for the industry's products in the free market.

ASCS OFFICE HAS DETAILS

Your Agricultural Stabilization and Conservation Service county office can give you complete details on the program. The office will also help you fill out your application for payment from the information on your sales records.

Senator JORDAN of North Carolina. It is a little different in the wool situation than in cotton. We do not raise enough wool for ourselves, and we have to import it.

Senator MILLER. But this shows the incentive approach with respect to quality.

The CHAIRMAN. All right. We are glad to have had you, sir.

Mr. KEMPNER. Thank you, sir.

COTTON

The CHAIRMAN. Mr. Holding? Will you identify yourself for the record, Mr. Holding.

STATEMENT OF W. W. HOLDING III, VICE PRESIDENT, ATLANTIC COTTON ASSOCIATION, WAKE FOREST, N.C.

Mr. HOLDING. My name is W. W. Holding III of Wake Forest, N.C. I am a cotton merchant and a farmer. I appear representing the Atlantic Cotton Association of which I am vice president. This association is comprised of merchants and brokers located in Virginia, North Carolina, South Carolina, Georgia, and Alabama. A number of our members are also small producers in the Southeast.

Our members buy cotton from all of the cotton growing States in these great United States, and sell cotton to every consuming mill in the United States and the rest of the free world. We are therefore the handlers of the cotton producers products and their future is our future. Whatever is produced we can move it, and know how to move it better than anyone else because of our experience. We have an integral stake in the future of cotton as do our producer customers.

We are in the unique position of being able to see more than one of the dimensions of our cotton problems. We have the producers as consumers as our customers and we easily see their problems. While the consumer needs raw products at competitive prices, he must also be guaranteed an unfailing and constant supply on which he can depend. The producer needs a ready and dependable market for his product, and he must be able to obtain a realistic price for what he produces.

Our society is geared heavily to the production of cotton and its byproducts, and we badly need continued and expanded use of this fiber in our entire economy. This ultimate can be attained; however, it can not be done overnight. It will take time to repair the damages done and to accomplish what we need. Plainly spoken, the industry needs lower consumption prices and larger production.

If we will bring our prices to the proper level, supply and demand laws will require more production. This is our longer range need and during the immediate near term, we will find it necessary to reduce production to bring our supplies in line with needs and demands. We therefore need to build a program to handle our immediate needs and provide for our future at the same time.

The present cotton law corrected a great and glaring deficiency in that it made cotton available to the domestic consumer at the so-called world price level. This was a help to 60 percent of our consumption. We overlooked the assistance needed to maintain the other 40 percent of our consuming customers; and now we must either handle that problem or lose forever that part of our business. That simply converts into the fact that if we lose 40 percent of our consuming customers, we must, from necessity, curtail 40 percent of our producing customers. As businessmen we know this approach to our problem is a foolish one and most definitely to the detriment of a large segment of our Great Society.

We also know that a smart businessman can always find ways to correct his problems and we know how to correct this one. It is simply a matter of offering our customers, at a competitive price, something as good as, or better than, our competitor. This we must do in order to get our product sold. This is simply part of the worldwide practiced law of supply and demand which is fundamental to our very existence.

Secretary Freeman has very ably expressed to this body the desire and necessity of taking the Government out of the business of buying and selling cotton. To this we subscribe wholeheartedly. We have seen the heavy progressive buildup in Government stocks and the mounting costs to the taxpayer of administering the programs.

In order to relieve the Government of the burden of operating a business that originated with and belongs in the free enterprise system, we endorse any program that would allow the marketing of cotton to follow the normal channels of trade, and the price of cotton to seek its own level according to the age-old laws of supply and demand.

In order to continue the necessary production of cotton in the United States, the producer has to receive a realistic income by present-day standards. Because so many facets of our economy are controlled by Government programs, it is not feasible to leave the cotton producer alone with no assistance. Until such time as the producer, through ingenuity and research, is able to stand alone and meet world competition, he must be supported to enable him to operate his end of this program. We suggest that a payment be made by the USDA directly to the producer based upon his current production and in the amount necessary to bring his net income to levels demanded by our present economy.

With the facilities now available to the Congress, it is possible to arrive at the amount needed by the producer to permit production of cotton under present-day standards of operation. It is also possible to determine each week, the average price at which cotton sells. With this necessary information available, the amount of the support payment could readily be determined.

Should the Congress see fit to enact a program based on the combination of low loan and direct payments, we seriously urge that the loan level be below present world prices and certainly not in excess of 20 cents. Any direct payments should be contingent upon the sale of such cotton into trade channels or upon actual acquisition of same by the Commodity Credit Corporation.

In order for our consuming customers to make their necessary plans for using cotton it is advisable for a program to have some extended life. It is not economically feasible for any manufacturer to base his operation on a short range availability of raw material. This fact is particularly outstanding when synthetic competition is in a position to offer unlimited projections.

With the large Government stocks hanging over our market, it will be necessary to have some measure of control on the release of such stocks. In order to provide for the orderly marketing of any current crop and to utilize these stocks in the event of emergency—legislation is necessary to properly control the release of these stocks.

Given a program as outlined above, we are positive the future of the production and consumption of American cotton, could be turned into a bright one instead of that of a dying industry.

Thank you, sir.

The CHAIRMAN. You say you are a farmer?

Mr. HOLDING. Yes, sir.

The CHAIRMAN. How many acres do you plant?

Mr. HOLDING. This year I planted 11½ acres, sir.

The CHAIRMAN. What you are really suggesting now is a direct payment to you instead of the present program, that is, the old program.

Mr. HOLDING. To the producer; yes, sir.

The CHAIRMAN. Compensatory payments?

Mr. HOLDING. It could be called compensatory payments. It could be called a number of other names, sir.

The CHAIRMAN. And you are suggesting that all cotton be sold to all mills, whether domestic or foreign, at the same price?

Mr. HOLDING. At the same price level; yes, sir.

The CHAIRMAN. And the Government would pay the difference between whatever the cotton brings to you and whatever support price is fixed?

Mr. HOLDING. Whatever price level that it brings to the producer and whatever price level is determined should be his proper return.

The CHAIRMAN. How much does it cost you to produce cotton?

Mr. HOLDING. I am ashamed to say I am not too close on that. We have never tried to produce figures to determine exactly what it costs us to produce cotton.

The CHAIRMAN. Can you give us some idea; could you produce it at 20 cents per pound?

Mr. HOLDING. Depending on how you want to use your figures, if you take no consideration for the land involved, I would say, "Yes." If you take the overall picture, I would say that we would be very close to 20 cents; yes, sir.

The CHAIRMAN. That would be your cost?

Mr. HOLDING. Yes, sir.

Senator AIKEN. Operating costs.

The CHAIRMAN. Operating and return on his land, I assume.

Mr. HOLDING. Including a return on my land.

Senator AIKEN. You mean a capital return to produce it at 20 cents?

Mr. HOLDING. It is going to depend on your land and various areas. Some places your land is going to be worth more and some places it is not feasible to raise cotton on your land.

Senator AIKEN. If you were a good grower and had good land you might do it?

Mr. HOLDING. Yes, sir.

The CHAIRMAN. At 20 cents?

Mr. HOLDING. Yes, sir.

The CHAIRMAN. You won't make a profit.

Mr. HOLDING. That would be my estimate. Some are higher and some are lower.

The CHAIRMAN. Some estimates say they could not produce it for 30 cents, others may be 32, and other 26. It is pretty difficult to come to a conclusion.

Any questions? If not, we thank you very much.

Mr. HOLDING. Thank you, sir.

The CHAIRMAN. The hour of 3 o'clock has been reached, and we have the pleasure of having before us a real cotton expert, the distinguished Senator from New Mexico, who served us well as Secretary of Agriculture, and I am sure that he has a prescription for cotton. So you may proceed, Senator Anderson.

STATEMENT OF HON. CLINTON P. ANDERSON, A U.S. SENATOR FROM THE STATE OF NEW MEXICO

Senator ANDERSON. Mr. Chairman, I, first of all, plead not guilty to the charge of being an expert. I only say that in the Department of Agriculture, when I was down there, there were two subjects that interested me very much. One was sugar and one was cotton. I think I was interested in sugar because of the international ramifications of it, and the possibilities we had for real work that could be done to control a substance like that.

I was interested in cotton because for a long time it had been the king in certain areas of the country, had contributed to the prosperity of those areas, and it seemed to me if the country was going to do what it ought to do we ought to try to have a good cotton industry for that portion of the country, at least.

I do not grow any cotton in my State. It grows around my farm, but I do not grow it.

My appearance here today is primarily because I have had some discussions recently with members of the Farm Bureau in my State. Being a member of the Farm Bureau I have a great deal of respect for the organization, and I have tried my very best to try to support it and, in connection with it, sound agricultural programs.

We were in a discussion not so very long ago when I told them I was not too satisfied with the recent cotton program. I had liked one some years ago, and I felt that cotton was one crop we did not need to let get out of balance too badly, because it comes in fairly sizable bales, and can easily be counted and handled, and tagged, and I thought that this was one subject where we might be able to get real control if we desired to do so.

I have not favored all of our Government programs, feeling that because of these programs cotton was speedily but gradually on the way downhill as far as its future is concerned. Acreage planted has dropped from over 40 million acres to less than 15 million acres; carry-over stocks have increased again this year and are nearing the alltime

high; the costs to the Federal Government currently are running in excess of \$900 million annually; the usage of cotton as a percentage of the total of all fibers is the lowest on record and is still heading downward; our exports are off considerably from what they should be; and the entire industry is worried about the future of this great crop.

Cotton is very important to the West and Southwest because it is a crop that does well in irrigated areas and one that yields extremely well. We can grow the quality that domestic users and exporters want and have the know-how, the land, and the water to make cotton an expanding industry rather than a shrinking industry.

This is the primary reason why I helped as best I could to put through the Senate the 1958 act as it applied to cotton. You will recall that, by an overwhelming vote of 62 to 11, the Senate passed the 1958 act and had in the act a provision that would have permitted cotton price supports after a limited time to be related to the market price, a very fundamental requirement if any commodity is to be permitted to expand rather than contract in production potential. It was unfortunate that this provision of relating support price for cotton to the market was stricken out by the House, and the Senate later than concurred.

In spite of this fact, however, the 1958 act if properly administered was a good act and would have kept cotton going on an upward path if the Secretary had used the discretion granted him in setting price supports in a manner that would have expanded cotton consumption. For the first 2 years of the act, the program was wisely administered. Then in 1961, the Secretary of Agriculture used his discretion to raise price supports on cotton rather than lower them as was intended in the 1958 act. This then set off a series of events that soon got cotton in real trouble and led in 1964 to the passage of a compensatory payment program for cotton which runs for the 2 years, 1964-65.

We are now much worse off than we were before we started the operation of the new program and there is nothing in the picture that will change this unfortunate situation unless we drastically change the cotton program.

I want to interpolate there, Mr. Chairman, to say that that sounds like I am criticizing the present Secretary of Agriculture, and I do not mean to be. I want to say that when he came into office, because of the fact that I have some close ties with people who were close to him, I was very hopeful of his administration. I know from personal experience how hard it is to get unbiased advice when you go into an office, and I am sure the present Secretary of Agriculture did what he thought was right. But I think he had lots of advice on the cotton problem that led him astray. He did not come from a cotton-producing State. I know how seriously he took his duties, I talked with him several times about it. I can say in all candor that I know he tried to do the best he could. But I think he believed a situation to exist that did not exist.

I had watched while the acreage in Mexico had increased tremendously. As a matter of fact, when I left the Department of Agriculture I had been petitioned to join a group of people who were going to plant a large acreage in old Mexico. I felt I could not have spent the time I did on cotton, in trying to control it, and then try to contribute

to the surplus by having cotton raised in another country with a price umbrella over it in American price support.

You can grow cotton in other parts of the world a little more cheaply than we can, and if you hold the American umbrella over them, they will develop their own industries pretty rapidly, and I did not want that to happen.

So, therefore, what I have said here, I mean every word of it, but I think the Secretary of Agriculture was very badly advised when he decided to raise the price supports on cotton rather than lower them as the 1958 act stated.

The CHAIRMAN. May I say to my good friend from New Mexico, that Mr. Freeman's predecessor had raised the acreage from the minimum of 16 million-plus to almost 18 million, and because the late President Kennedy had made a statement that he did not desire the price supports to go lower than they were, that the fact that the cotton acreage was increased by 2 million, and the fact that he was asked to carry the price supports the same as the previous year, there was a difference, I think, of six-tenths of a cent a pound. In other words, it was contrary to what we in the Congress intended with the act of 1958.

We envisioned, as you recall, the increase of acreage and the lower price supports. That did not happen, as you have just stated.

Senator AIKEN. We had a decrease in supply about that time which, I think, under the law warranted the increase in acreage.

The CHAIRMAN. No. The amount of supply was in excess of 7 million bales, and that was in excess really of what—7,400,000, as I remember it, and there was no need or no reason why the acreage should have been increased to the extent that it was. It might have been possible to increase it 200,000 or 300,000 acres, but to put in an increase of 2 million acres just overnight, and then give the same price or a little more than obtained the year before, why, that is what caused us to go back into the higher production, and our present troubles, with enormous surpluses.

Senator ANDERSON. If I may make just a little personal observation, I did not mean in this to criticize the men who have been Secretaries of Agriculture, either Mr. Benson or Mr. Freeman. I found out how very hard it was for me; I assume it was just as hard for everybody else, maybe harder, because we were in a situation quite different then than we are now—we have a surplus—we had a scarcity of everything then and prices could be good.

But when I first came into the Department of Agriculture we had some 7 million bales of cotton on hand. It was all very short staple cotton, some grown very close to my home State of New Mexico, and not the best cotton in the world—but anyhow, the people in the Department recommended to me that I put cotton on the list. I did not quite understand the term "on the list." But I found out they meant to throw it all in the market.

I felt if we threw it all in the market we would hurt the market for a long time for the American farmer, and not do much more for the American consumer and, therefore, I finally succeeded in shipping every bit of that cotton out of the United States to Austria, to Japan, to China, and places of that nature.

Had I taken the advice of the very well intentioned person who wanted it put on the list for reasons of his own, very good reasons, I would have had a lot of criticism to answer for that I did not have to answer for, and I was only fortunate I did not take it.

I am only trying to say it is very hard for a person who comes into the Department, which had at that time some 86,000 employees, I got it down to 60,000, I think it is back to 80,000 again now—but it is a lot of people, and a great many diversified opinions coming to you, and a lot of advice is given to you—I am only trying to say that I think the Congress in what it did in 1958 acted with reasonable wisdom, and what the Congress had done had been—if it had been strictly carried out the way the Congress understood it, I think we would have been in better position today than we are now. That is all I meant to say.

In the spirit of trying to be helpful in the big task this committee has, I have introduced a cotton bill, S. 2079, that I sincerely believe will be a big step forward in getting from where we currently are with cotton to a place that will be tolerated by the producers, the consumers, the people who deal in cotton, our friends abroad who want to buy our cotton, and the taxpayers of this country.

My program has been designed to overcome not only the shortcomings of the present cotton law but also to provide a lasting solution to the cotton price problem at a greatly reduced cost to the Federal Treasury. Under my proposal the grower is offered three alternative choices:

(1) He may plant his allotment which is his share of at least the 16 million acres of the current national allotment because I propose not to lower this minimum national allotment.

(2) The grower may release his allotment for reapportionment and maintain it as many have done in recent years so that if he later decides to plant cotton he can do so.

(3) The grower may release——

Senator JORDAN of North Carolina. Say that again, I did not hear you.

Senator ANDERSON. The grower may release the allotment permanently in exchange for three annual rental payments.

Senator JORDAN of North Carolina. You mean sell his allotment for that?

Senator ANDERSON. He may release the allotment. Under the alternative—I will come to it in just a second—the grower would agree to release his allotment permanently and devote the land to conservation uses for a period of 3 years. For this he would receive annual payments at a per acre rate equal to 8 cents per pound times his normal cotton yields.

Under this alternative, the grower would agree to release his allotment permanently and devote the land to conservation uses for a period of 3 years. For this he would receive annual payments at a per acre rate equal to 8 cents per pound times his normal cotton yield.

The allotment acreage released under this provision would be available after the contracts expire for reallocation. The provisions of present law relating to release and reapportionment would remain in effect. But present provisions for the domestic allotment plan and export acreage would be discontinued.

The price support and subsidy provisions of the proposal are calculated to make cotton competitive. This would be accomplished by graduated annual stepdowns of 1 cent in price supports and 2 cents in mill payments over a 3-year period.

Price supports would be set at 29 cents for 1965, 28 cents for 1966, and 27 cents for 1967. In 1968, and thereafter, the support would be set at 90 percent of the average price received by farmers in the immediately preceding 3 years and would move up and down with changes in this average.

It is anticipated that under this program the average market price received by farmers would be above the support level beginning in 1965.

The formula for establishing support prices is completely automatic, leaving nothing to discretionary action. At the end of each year the prices received for that year would be substituted in the formula and the new 3-year average would be computed.

Coupled with this change in price-support systems is a protection against the possibility that market prices might be beaten down by CCC stocks. The price at which these stocks could be sold would be increased from 105 percent of the support price, plus charges, to 115 percent plus charges.

The mill payment part of the plan to make cotton competitive would reduce the present 61½ cents subsidy payment by 2 cents in each of the next 2 years and terminate the payment with 1967.

The net result of the proposed changes in mill payments and price supports is that each group—textile mills and cotton producers—would be contributing roughly 1 cent per pound per year for a period of 3 years, starting with the 1965 crop.

My proposed cotton program is designed to set market strengthening forces into motion at once and lead to substantial market expansion over the next few years. This, coupled with the reduction in output to be expected from the allotment reduction plan, means that within the near future the national allotment might safely be increased from the present level.

Again, I would like to thank this committee for the opportunity of trying to be helpful in solving the serious cotton problem confronting all of us. My program will cause each segment of the industry to give a little in order that the entire industry may survive.

The CHAIRMAN. According to your bill, at the end of 3 years, what would happen?

Senator ANDERSON. The market price level.

The CHAIRMAN. Whatever the market price is?

Senator ANDERSON. I am very frank to say most all of the things I have suggested here have been supported by the Farm Bureau in my State and I think to some degree have been accepted by the members of the National Farm Bureau. I do not know how many of them, but some of them, at least, have accepted it, and I got into this only because the cotton producers of my State saw increased difficulty in the years ahead.

There is bound to be some day a swing back to high subsidies and domestic allotment programs and things of that nature, and I thought it might be well to bring it into some relationship with the marketplace itself.

The CHAIRMAN. There have been some suggestions made today that the program be entirely changed, and that cotton be sold domestically as well as abroad at the same price, and the Government would pay the difference between whatever the farmer obtains and whatever price support would be made. What is your opinion as to a program of that kind, Senator?

Senator ANDERSON. Well, unfortunately a program of that kind got labeled the Brannan plan, and people thought that was the only definition or term you could apply to it. Ted Schultz of the University of Chicago, I guess, who was the author of this whole question of production payments—and I had no more than reached the Department of Agriculture in 1945 when I was brought a docket from the Commodity Credit Corporation to put the Ted Schultz plan into effect on certain commodities. I got information from Professor Schultz who is, I think, a very brilliant man and a good man.

I took those home and frankly, I could not make up my mind very easily on it, and for nearly 3 weeks I studied those dockets proposed to put in operation the very thing you are talking about. I finally decided that the dangers were greater than the possible benefits and rejected the docket. Later on, in conjunction with a very able Senator who sits across the table from me now, Mr. Aiken, there was a farm bill proposed, which he was kind enough to introduce, which became the Agricultural Act of 1948. It included a provision for production payments.

I joined him in that recommendation, and I make no apology for doing so. I thought he had done a very proper and wise thing, and I still think so. But, unfortunately, as things sometimes happen, in a succeeding year another Secretary of Agriculture sought to apply that to too many things that Senator Aiken and I did not think it should apply to, and it scared a great many people, so in the Agricultural Act of 1949 the right to make production payments was removed from the bill.

Senator AIKEN. We had different commodities in mind.

Senator ANDERSON. We did have.

Senator AIKEN. We had wool in mind in the 1948 bill.

Senator ANDERSON. That is right.

Senator AIKEN. We are having production payments on it now.

Senator ANDERSON. Yes. But in the proposal——

Senator AIKEN. We were a little too much ahead of our time.

Senator ANDERSON. It involved hogs and eggs, and it involved a great many things, and scared a few people.

The CHAIRMAN. But none of our basic crops, as I remember.

Senator AIKEN. No.

Senator ANDERSON. We could not tell.

Senator AIKEN. Well, no; we could not tell what a crop is going to be. I know we had in mind Georgia peaches; there might be a surplus, and why not get them out around the country where people would like to eat them, and things like that.

Senator ANDERSON. I only say, Mr. Chairman, after many years of being exposed to it, and many years of discussion of it, I am not as attracted to the program of production payments as I once was, and I think I would be opposed to it all the way through.

I think that the opportunities, when you can use it, are more limited than the opportunities you can use it in a wrong fashion. There

could be a very tremendous cost by that system without too much succeeding benefit to the public and, therefore, I am not too enthusiastic about production payments. This is a longstanding prejudice, and I think my testimony ought to be taken in consideration that it is prejudiced.

The CHAIRMAN. Any questions?

Senator ANDERSON. I would only like to say one other thing. If the Senate will look at the Congressional Record for February 28, 1964, and turn to about page 4001, they will find where the then chairman of the Senate Agriculture Committee, now the chairman of the Agriculture Committee, the Senator from Louisiana, Mr. Ellender, made some comments on how the farm program would work out, the way it was being done. I think Mr. Ellender would probably not put this in the record, but they are about as sound a group of recommendations and suggestions as you will find, and I merely state to the chairman that his advice was extremely good. The things which he predicted came to pass, and he ought to get a great deal of satisfaction in going back and reading this again.

I thank the chairman for the privilege of appearing today.

(The excerpts from the Congressional Record referred to above are as follows:)

[From the Congressional Record, Feb. 28, 1964]

Mr. ELLENDER. Mr. President, I am truly sorry that I am not in complete accord with the committee of which I am chairman, especially on the title dealing with cotton.

As the distinguished Senator from Mississippi properly pointed out, we held hearings in May of last year, primarily on the cotton program. At that time, I found little support for any of the bills that were before the committee. I never before saw the cotton industry so torn with dissension, with its various segments opposing one another.

This year, when we started hearings again, we were confronted with considerable dissension among those representing the cotton industry.

However, on the last day of the hearings, Mr. Murphy, the Under Secretary of Agriculture, presented a plan which had been prepared only the week before. The committee did not have an opportunity to go fully into the new plan, which is incorporated in the pending bill.

It is true that some of the provisions of the pending bill were included in the so-called Cooley bill; but, in my opinion, most of the principal provisions of the Cooley bill were drastically different from the provisions of the pending bill.

The original Cooley bill provided for an equalization of the sale price of cotton to domestic users and the sale price to foreign users. The Jones amendment—which provided the Secretary of Agriculture with discretion as to the amount of the payments on cotton for domestic use—was stricken out of the pending bill. The testimony adduced at the hearings held in May of last year was to the effect that the textile mills of the United States should pay the same price for cotton for domestic consumption as is paid for cotton sold for foreign use.

The bill before the Senate would carry out the terms of the Jones amendment up to August 1, 1964, but, thereafter the Secretary of Agriculture would be obligated—it would not be permissive—to see to it that every pound of cotton that is sold for domestic consumption shall be sold at a price not more than the price obtained from foreign mills.

That new approach is far different from the way in which cotton programs have been handled in the past. It is true that the domestic mills have competition. But that competition is mostly in the United States, for the reason that 95 percent of the output of our textile mills is sold to the best market in the world—the United States of America.

If the bill as written in respect to cotton is passed, it will mean that from now on, at least until July 31, 1968, the American taxpayer will be called upon to pay the difference between the world price of cotton and the domestic price, including such other price supports as the Secretary of Agriculture provides under the bill.

Up to now the evidence shows that cotton cannot be produced in our country, generally speaking, for less than 30 cents a pound. If cotton should sell at 30 cents a pound, it would mean that American taxpayers would be called upon to pay the difference between 30 and 23.5 cents a pound which is now the world price. As the world price on cotton is affected by manmade synthetics, and thereby decreases, the taxpayers will be called upon, under the bill, to pay the additional difference between whatever price support the Secretary fixes and the world price.

Mr. EASTLAND. Mr. President, will the Senator yield?

Mr. ELLENDER. I yield.

Mr. EASTLAND. There is a wheat program; and there is a feed grain program. Does the Senator say that the prices in those agricultural industries should be reduced to the world price level?

Mr. ELLENDER. I do not say that. And I do not believe that cotton should be treated differently.

Mr. EASTLAND. That is the point I am making. It is not different. There will be drastic reductions in the cost of producing cotton. But why pick out cotton and say that it cannot be subsidized in the future and leave the other industries alone?

Mr. ELLENDER. I do not say that cotton should not be subsidized in the future. I say that if the bill is passed in the way in which it is written, there will be no way to make the change from the unnecessary subsidies provided by it in the future.

Mr. EASTLAND. I disagree. I believe that production costs can be decreased, and that the subsidy will not have to be continued. But the Senator contends that research would not be able to break through to reduce the cost of production so that 4 years from now cotton would be produced at the world price. Therefore the Government must continue to subsidize it. Therefore, the bill must not pass.

Mr. ELLENDER. That is correct.

Mr. EASTLAND. Then there is a difference between cotton and wheat. The Senator is not advocating that policy in respect to other commodities.

Mr. ELLENDER. I am not advocating it; but the point is that to reduce the price of cotton for domestic consumption to the world price, it is necessary for Congress to provide an equalization payment, whether it be called a subsidy or not, equal to whatever the difference might be between the support price and the world price. If the support price is 30 cents a pound, 29 cents a pound, or 33.5 cents a pound, as the amount is contemplated under the bill for those keeping within their domestic allotments, the difference might be 10 cents a pound, or \$50 a bale. That amount will have to be found in some way in order to subsidize the mills of our country.

It is true that this subsidy is not paid directly to the mills, but is paid to someone other than the producer.

Mr. EASTLAND. I remind my friend that if we continue the present program, in 1968 cotton stocks will be 18,250,000 bales. If we adopt the proposed program, according to the Department of Agriculture, cotton stocks will be 6,700,000 bales, which we should have. It is a little less than the normal carryover.

Mr. ELLENDER. Then what? After the stocks are down to 6 million bales and the world price remains at 23 cents, or perhaps 22 cents——

Mr. EASTLAND. Of course, if there is no breakthrough——

Mr. ELLENDER. Yes, if there is no breakthrough.

Mr. EASTLAND. The point is that my friend is drawing a different line for the cotton industry than he is for wheat, feed grains, and other commodities. They are all under Federal subsidies. We are hoping to get cotton on its own feet, where it does not have to rely upon the Federal Government. That is the whole point of the bill.

Mr. ELLENDER. My contention is that it is not going to be done in 4, 5, or even 10 years. I hope I live to be able to tell the Senator "I told you so."

Mr. EASTLAND. I believe the Senator will; but the point is that if we adopt this bill stocks will be reduced, money will be saved, and the cotton industry will be placed on a sound basis.

Mr. ELLENDER. I shall reach that point after a while, and show my good friend from Mississippi how mistaken he is. It is my hope that the Senator will study the tables I am going to put in the Record and let the Department of Agriculture look into the figures and make a determination as to whether or not they are correct. The figures show that a program similar to the one

that I hope to offer as a substitute for the pending bill, and which I offered in the committee as a substitute, would cost less. It is true that there would be a little more cotton on hand. There is no doubt about that.

Mr. EASTLAND. It would cost less, but the cotton industry would be destroyed.

Mr. ELLENDER. That remains to be seen.

Mr. EASTLAND. It may remain to be seen, but—

Mr. ELLENDER. I heard the same arguments in 1958, when the present law was enacted. Prior to that time the carryover had reached 14½ million bales, as I recall. The cry then was made that, unless the law were changed, the cotton industry would be gone. But it is still here.

As I shall point out later in the debate, perhaps not today, but Monday, it is true that the cotton surplus may increase somewhat, but what I am saying to the Senate today is that if the cotton mills of the United States had competition from abroad on all they produced, I would be in the distinguished Senator's corner. But we could almost give cotton away to domestic mills, and Japan and other countries could beat us on prices. Everybody knows that.

During the debate the distinguished Senator from Mississippi pointed out that the cost of labor in most of the mills abroad was much lower. I believe in Hong Kong it was 21 cents or 11 cents an hour—

Mr. EASTLAND. It was 11 cents an hour.

Mr. ELLENDER. As compared to what in this country?

Mr. EASTLAND. To \$1.69.

Mr. ELLENDER. To \$1.69 in this country. Everybody knows that is the trouble today.

Mr. EASTLAND. That is not all the trouble.

Mr. ELLENDER. That is one of the troubles—the main trouble.

Mr. EASTLAND. It is one of the troubles.

Mr. ELLENDER. It is the main trouble.

Mr. EASTLAND. No. The cost of cotton is the main trouble with respect to many types of cotton goods. Labor is more important in the case of fine goods.

Mr. JORDAN of North Carolina. Mr. President, will the Senator yield?

Mr. ELLENDER. I yield.

Mr. JORDAN of North Carolina. The Senator has questioned whether cotton can be produced at 30 cents a pound. Like the Senator from Mississippi, I am not a prophet, and I cannot say whether it can or cannot be, but Mr. Robert Coker, counsel for the American Cotton Producers Association in South Carolina, who himself is a breeder of seed of all kinds, including cotton, testified before one of the committees, I believe the Agriculture Appropriations Subcommittee, when we were asking for \$10 million to put into effect a great research program. He said he believed that in a few years—not 4 years, but rapidly—they could reduce the cost of producing cotton by 10 cents a pound. It is not a simple problem, but it is simple in many respects. The boll weevil is one of the chief offenders of cotton production, particularly in the South. Worms and other pests are in the West. But with the new insecticides being developed, and with the new seeds which enable farmers to produce many more pounds per acre, that is his estimate. Much progress has been made in that direction.

In addition, the distinguished Senator referred to weedkillers. They have been developed to the point where it is not necessary to chop cotton. The weedkillers kill the weeds. Weeds have been one of the chief offenders in the production of cotton, because a hoe had to be used and weeds had to be chopped out by hand labor. With the invention and perfection of the cottonpicking machine, we know the majority of cotton is picked by machine, and it has greatly reduced the cost of lint cotton.

So there is reason to believe that cotton can be produced profitably to compete on the world market. I believe we can get it off subsidy and still meet the world market price.

Mr. ELLENDER. I was present when the gentleman to whom the Senator from North Carolina refers was testifying. Glowing reports were made to the effect that if we furnished the money, the cost of production of cotton could be reduced. I believe it can be, but not to the point of making cotton production in the United States competitive with cotton abroad.

The cotton textile mills of the United States have a good outlet for their goods. As I pointed out awhile ago, 95 percent of the production of the textile mills of the United States is sold on the American market. It is true that there has been more importation of cotton goods into this country. It has increased to a great extent. But the difference between the amount of cotton imported into this country and that exported amounts to about 150,000 bales.

So I go back to the proposition that what we should do is pattern our cotton program as closely as possible to the existing law, the one that was enacted in 1958. If that act had been administered as Congress intended, there is no question that the program would cost less and less as time went on.

When we presented that program to the Congress, we envisioned greater numbers of acres and lower price supports. But before the Kennedy administration came in, Mr. Benson, who was then Secretary of Agriculture, raised the acreage for cotton by almost 2 million acres. Since the late President Kennedy had more or less promised not to disturb the price structure of all of our commodities, the high price remained—that is, 33.04 Middling inch, I believe it was.

We had a situation in which we had an additional acreage of almost 2 million acres with a high price, and in my humble judgment, that is what has caused the trouble we are now facing.

Mr. President, to go back to the Cooley bill, as it passed the House, that bill, if enacted, would have been much cheaper in its administration than the pending bill, for the simple reason that it left it to the Secretary of Agriculture to equalize the prices to textile mills in the United States and sales abroad. The evidence shows that with an export subsidy of 8½ cents per pound to foreign users of cotton, the domestic subsidy would have been between 5½ and 6 cents a pound, instead of 8½ cents a pound now paid to the foreign mills—that is, the difference in the price.

Mr. President, upon the insistence of those who represented the textile industry, the bill was presented in almost the identical language that was provided in the original Cooley bill before it was amended by the Jones amendment. That means that after August 1, 1964, cotton will be made available for domestic use at a price not below that which foreign mills pay. So in one swoop, we are going to pay to the textile mills of this country for the 1964 crop, \$312 million. The amount of additional cotton that will be consumed, according to the figures submitted by the Department, will be about a million bales. This means that, for the use by domestic mills of a million bales more cotton, the Government is going to make trade incentive payments of \$312 million.

Mr. JORDAN of North Carolina. Mr. President, will the Senator from Louisiana yield?

Mr. ELLENDER. Not at this moment.

It is unconscionable for us to pay that price in order to get the use of this additional baleage.

Mr. President, the proposal that I submitted to the committee would assist the textile mills of the country to the extent of 2½ cents a pound, in round figures, or \$12.50 per bale. On our sales abroad, the program that I proposed to the committee, and which I hope to submit to the Senate, would reduce the cost on the sale of cotton abroad by \$12.50 a bale.

All in all, as I shall indicate to the Senate and by the tables which I expect to place in the Record, the program that is contained in the pending bill will be much more costly, no matter how we look at it, than the program that I submitted to the committee and which I hope to offer to the Senate for consideration.

I am happy to yield to the Senator from North Carolina at this point.

Mr. JORDAN of North Carolina. The distinguished Senator from Louisiana, the chairman of the Agriculture and Forestry Committee, and one of the best Senators I know, has done a distinguished job, but he is referring to the subject of cotton mills and what they will get. I should like to advise him that the textile mills will not get one nickel of this money.

Mr. ELLENDER. They will get cheaper cotton. They will get it indirectly.

Mr. JORDAN of North Carolina. All that the mills are asking for is that they be allowed to buy cotton at the same price the Japanese pay, or the English, or the Yugoslavs, or the Egyptians, or the Turks pay.

Mr. ELLENDER. The Senator is correct.

Mr. JORDAN of North Carolina. That is all they are asking for.

Mr. ELLENDER. That is correct; but in order to do that, the taxpayers of the country will have to come up with \$312 million in 1964, and as much each year thereafter—perhaps even more—as I shall point out after awhile, if the Senator will stay a little longer.

Mr. JORDAN of North Carolina. I shall stay with the Senator all the way.

Mr. ELLENDER. There are no other Senators in the Chamber at present. I wanted to open up the subject at this time, because I expect to go into the matter a little more deeply when I present my amendment, and I hope that will be on Monday or possibly on Tuesday.

Mr. JORDAN of North Carolina. If the Senator from Louisiana does not stay until it is dark, I shall stay with him tonight.

Mr. ELLENDER. I shall not speak very long. I merely wish to state to the Senate that we are getting away from our present program in changing the methods of protecting the cotton farmer.

There is another change in the bill which is different from the present law. I am not criticizing that phase of the bill. A choice had to be made as to whether there would be acres set aside on which farmers would be paid not to plant—a revival of the old soil bank plan or some other plan.

Soon after the committee met this year, the Department of Agriculture went on record as saying that diversion acres were out of the question and that there would be no program whereby they would offer to the cottongrowers a certain amount of money per year per acre not to plant cotton. But, instead of that, the second change that was made in the bill is what is referred to as the domestic allotment choice. What that means is this: That on all allotted acres, the farmer, or corporation, or partnership which has allotted acres will be able to reduce plantings by about a third, and in return for that reduction the Secretary of Agriculture is authorized to raise the price of the cotton produced on the reduced acreage by as much as $4\frac{1}{4}$ cents a pound.

It is my understanding that the price for domestic allotment acres would be around $3\frac{1}{2}$ cents more than the 30 cents fixed for all cottongrowers.

Under the domestic allotment choice feature of the program, any farm with an acreage allotment of 15 acres or less would be considered as keeping within his domestic allotment and entitled to the extra support, so long as he kept within his acreage allotment. In other words, he is given a minimum domestic allotment equal to his acreage allotment. He would not have to reduce. Other farmers would have to reduce about one-third below their farm acreage allotments to qualify for the extra support.

On that acreage, as I pointed out this afternoon, the amount of cotton that would be produced would be in excess of $5\frac{1}{2}$ million bales of cotton for this year. On that cotton the differential between the support price—including the additional support—and the world price would be 10 cents a pound. That means that the Treasury would be called upon to pay \$50 a bale, to lower the price of the cotton, for the domestic mills, to the world price. That is what it means in simple language.

I agree with my friend that the \$50 a bale is not paid directly to the textile mill. What happens is that the price support is paid to the cottongrower, payment is made to someone other than the producer, of the difference between the basic support price and the world price, and the cotton is then sold to the domestic mills at the world price, which would be $23\frac{1}{2}$ cents a pound.

In 1964, the amount of cotton that would be grown under the domestic allotment program would be about 5.85 million bales; in 1965, it would increase to 6.72 million bales. In 1966, it would increase to 6.79 million bales. In 1967, it would be 6.86 million bales.

That means that on more than half of all the cotton that would be purchased by the domestic mills, someone—namely, the taxpayer—would have to pay the difference between the world price and $33\frac{1}{2}$ cents, or whatever price the Secretary of Agriculture might fix.

Mr. JORDAN of North Carolina. Mr. President, will the Senator yield?

Mr. ELLENDER. The extra price could be 15 percent of the going support price, and the going support price under the present act is 30 cents for 1964. Next year, if the Secretary of Agriculture deems it necessary, he can make the price 31 cents; if he wishes to do so, he can make it 29 cents. The point I want to make and emphasize is that irrespective of how high the support price goes or how low the world price goes, the taxpayers will have to pay the difference between whatever the world price is and whatever the support price is. That may go up, not to 10 cents a pound, but to 12 cents a pound. There is no limitation in the bill. The Secretary of Agriculture is required to make provision, not necessarily to pay directly to the mills, as my good friend says, but to pay someone such amount as is necessary to make cotton available to the domestic mills at world prices, irrespective of what the cost is for the production of the cotton, or what the world price is.

That is what I am so vehemently opposed to. It is wrong to do anything like that, for the simple reason that competition among the domestic mills will remain the same whether cotton sells at 10 cents a pound, 40 cents a pound, or 25 cents a pound. That is where the competition is. The competition that

we hear about it the competition that exists among the mills that do business in the United States. Every one of them produces for the American market. Some of them have closed, it is true, because they could not compete with those that could produce at a cheaper price. I repeat that the competition that we hear about, to which my good friend from Mississippi referred, is not the production from abroad so much as it is the production of the domestic mills. The bill, as my good friend from Mississippi has stated, seeks to reduce our surplus. He says that is what it would do.

There is a provision in the bill which would give the Secretary of Agriculture the right, during 1964, to increase by 10 percent if he sees fit, the allotted acres to any farmer.

In order to be able to do so, he must first make certain that the carryover of cotton—that is, what we have on hand—will be reduced by at least a million bales. He can easily take care of that, because every year we could sell or give away, through Public Law 480, a million bales. Therefore he would be safe in assuming that every year he can take out of the Commodity Credit Corporation stocks the million bales that we sell for soft currencies. We give away a good deal of it. We gave some to Korea, we gave some to Taiwan, and we gave some to many other countries. It is my belief that the Secretary of Agriculture would at least be able to say to himself, "I am safe in assuming that under Public Law 480 we shall sell a million bales." He would be able to say to himself, "I can see to it that more production is permitted."

As I pointed out during the colloquy with the distinguished Senator from Mississippi, every bale of cotton that we produce over and above that would come into competition with cotton which we have on hand in CCC stocks. There is no question about that. It is presumed in 1964 that about 200,000 acres might be available for planting. Why it should be 200,000 acres, I do not know.

On large cotton farms, where from 2 to 3 bales an acre are produced, it can readily be seen that on 200,000 acres of land as many as 400,000 or 500,000 more bales of cotton can be produced this year to be sold in competition with the cotton now in surplus.

Furthermore, for 1965, 1966, and 1967, the Secretary of Agriculture is not limited to the 10 percent over and above the allotted acres, but he can use his own judgment. He can make it 5, 10, 30, or 50 percent if he wants to, so long as he assures himself that the surplus will be reduced by 1 million bales.

In my humble judgment, this surplus will come into competition with the cotton now on hand. When I debated this question with the Senator from Mississippi, he said that most of the cotton on hand was of a quality not grown on the big farms. It was all short staple cotton, but, a report from the Department of Agriculture, dated November 22, 1963, shows that of the 319,720 bales of 1-inch cotton, about 80 percent was Strict Low Middling or better. In the case of 1 $\frac{1}{32}$ -inch cotton about 83 percent was Strict Low Middling or better. Of the 1 $\frac{1}{16}$ -inch cotton about 94 percent was Strict Low Middling or better. In the case of 1 $\frac{3}{32}$ -inch cotton about 95 percent was Strict Low Middling or better and in the case of 1 $\frac{1}{8}$ -inch about 99 percent was Strict Low Middling or better.

So the point made by the Senator from Mississippi, that the extra planting would not come in conflict with the cotton on hand, is disproved by the facts as shown in the table. I ask unanimous consent that the table be printed at this point in the Record.

There being no objection, the table was ordered to be printed in the Record, as follows:

Grade and staple distribution of 1962 and earlier upland cotton in CCC stocks as of Aug. 1, 1963

Grade	1 3/16 inch and shorter (bales)	7/8 inch (bales)	2 9/32 inch (bales)	1 5/16 inch (bales)	3 1/32 inch (bales)	1 inch (bales)	1 1/32 inches (bales)	1 1/16 inches (bales)	1 3/32 inches (bales)	1 1/8 inches (bales)	1 5/32 inches (bales)	1 3/16 inches (bales)	1 7/32 inches (bales)	1 1/4 inches and longer (bales)	All staples	
															Bales	Percent
White:																
Good Middling-----	1	5	28	181	287	438	1,996	4,148	3,269	1,026	102	16	4	1	11,502	0.1
Strict Middling-----	14	308	3,462	35,216	63,640	46,556	154,334	568,364	112,106	11,065	1,206	140	49	53	996,513	12.4
Middling plus-----		4	64	389	686	1,243	22,506	88,451	25,024	1,603	132	23	1	1	140,127	1.7
Middling-----	79	1,124	13,807	77,781	106,758	111,864	544,870	1,662,818	241,288	22,972	5,295	472	92	118	2,789,338	35.0
Strict Low Middling plus-----		36	1,066	4,655	3,163	4,650	22,232	30,370	5,688	1,825	523	76	9	15	74,308	.9
Strict Low Middling-----	59	2,752	77,754	321,048	91,496	73,028	283,747	406,295	57,846	11,679	3,108	498	226	475	1,330,011	16.7
Low Middling plus-----	4	2,264	7,858	28,780	7,363	6,334	26,712	35,562	40,665	11,581	110	38	23	65	118,359	1.5
Low Middling-----	12	792	27,521	92,827	26,035	45,174	130,887	114,845	12,017	1,220	231	123	56	124	451,864	5.6
Strict Good Ordinary plus-----		18	590	2,000	904	1,715	5,432	4,072	551	42	17	16	3	1	15,325	.2
Strict Good Ordinary-----		86	2,040	8,007	6,771	22,476	32,061	19,141	1,751	237	1	4	6	13	92,619	1.2
Good Ordinary plus-----		1	35	83	65	277	447	225	12	4	4	5	6		1,150	(1)
Good Ordinary-----	1	27	292	1,729	2,807	5,965	5,924	2,603	200	36					19,599	.2
Total-----	170	5,417	134,517	572,696	309,975	319,720	1,231,148	2,936,894	464,417	52,290	10,729	1,407	469	866	6,040,715	75.5

1 Less than 0.05 percent.

NOTE.—Grade index, 95.9; average staple, 32.6.

Source: U.S. Department of Agriculture, Agricultural Marketing Service, Cotton Division.

Mr. JORDAN of North Carolina. Mr. President, will the Senator yield?

Mr. ELLENDER. I yield.

Mr. JORDAN of North Carolina. I agree with the Senator on one point. There is no question that an enormous amount of cotton has been shipped under the Public Law 480 program. Nevertheless, CCC stocks have increased and are continuing to increase. Under the bill, I do not think they would.

Mr. ELLENDER. They have not increased as much as the Senator said they did. In 1957, the carryover was 11,257,000 bales. In 1958, the carryover was 8,702,000 bales. In 1959, it was 8,843,000 bales. In 1960, it was 7,522,000 bales. It is true that the carryover has increased from 1961. In fact, in 1961, it was lowered to 7,180,000 bales. In 1962 it increased to 7,789,000 bales. As of August 1, 1963, the carryover was 11,091,000 bales. There is no doubt about that.

Mr. JORDAN of North Carolina. On August 1, 1964, when the Commodity Credit Corporation possesses what the law will permit it to acquire this year, it will have nearly 13 million bales. So the amount on hand is rising rapidly.

Mr. ELLENDER. That is true. But let me give the Senator one of the main reasons for that. The main reason was the enormous production by cotton-growers during last year, which will be carried over on August 1, 1964.

The estimates made by the Department were much lower than the amount of cotton actually produced. The Department missed its guess by about 1.6 million bales of cotton. Since all the statistics are based on guesswork, I am wondering what will happen in the next 4 years if cotton continues to be produced at the same rate, or nearly the same rate, as it was during the last year.

Mr. JORDAN of North Carolina. That very fact proves conclusively that cotton can now be raised profitably at less than 30 cents a pound. Last year's crop far exceeded the crop of any prior year, because production conditions were good. The Senator talks about overplanting. Cotton cannot be produced at less than 30 cents a pound. If it cannot be produced at less than 30 cents a pound, and has to be sold for export at 23 or 24 cents a pound, farmers will not plant cotton and lose 4 or 5 cents a pound.

Mr. ELLENDER. I am glad the Senator raised that point. All the export cotton will be sold on the world market. In my judgment, that will tend to bring the price of cotton lower and lower, because, somehow, cottongrowers abroad always undersell us. They know what our support price is, and what the subsidy will be. It is the difference between the support price and the world price. Because they can always determine that in advance, they are always able to undersell us.

If we produce cotton to be sold abroad, without any strings attached, it might help to demoralize the world price and cause it to go a little lower. If it does go lower, our subsidies will be increased. That is another reason I was about to advance. I am glad the Senator from North Carolina raised the point at this moment.

Mr. JORDAN of North Carolina. But if they cannot raise cotton for less than 30 cents a pound, they will not plant it if they know they will have to sell it for 24½ or 23½ cents a pound.

Mr. ELLENDER. Then why include that provision in the bill? Would the Senator from North Carolina be willing to vote to strike it out of the bill?

Mr. JORDAN of North Carolina. I see no reason why it should not be included in the bill.

Mr. ELLENDER. I tried to have it stricken from the bill; but in making that attempt, some of those who are in support of the bill became dissatisfied.

The bill was presented to the committee and is being presented to the Senate even though many segments of the cotton industry want this, that, or the other provision changed and are against the bill. In my opinion, it is unconscionable—in view of the large amount of surplus cotton which we have on hand today—for Congress to permit increased acreage in this country to be planted to cotton, for, as I have pointed out, the cotton which would be produced on those additional acres no doubt would be sold in competition with the surplus cotton we now have on our hands.

One of the amendments which I shall ask the Senate to vote for, if my substitute is not adopted, will call for striking from the bill for provision which would permit the planting of cotton on acres over and above the allotted acres, because, as I have said, if that were done, it would tend to lower to some extent the world price of cotton; and as the world price declined, the subsidy would be increased. So there would be no way to tell what the program would cost if that provision were to remain in the bill.

It may be that I am a little too fearful about all that; but, for the life of me, I cannot understand why it is even suggested that Congress allow cotton to be planted on acreage in addition to the allotted acres, if the purpose is to get rid of the surpluses. Let us get rid of the surpluses. That is what the proponents of the bill say they want done; but it will not be possible to get rid of the surpluses if Congress permits cotton to be planted on more than the allotted acres.

Mr. JORDAN of North Carolina. Mr. President, will the Senator from Louisiana yield further to me?

Mr. ELLENDER. I yield.

Mr. JORDAN of North Carolina. I realize that the Senator from Louisiana understands a great deal about this situation; but many other persons do not. I point out that we are talking about imports which amount to only approximately 5 percent of the amount of cotton produced in the United States. Although that may not sound like a great deal, I point out that whereas in 1955, 363,487,000 square yards of cotton were imported in 1963—and this figure is an astounding one—1,156 million square yards of cotton cloth were imported. In excess of 1 billion square yards of cotton cloth would be sufficient to wrap up every woman in the United States, with about 5 square yards for each one, let alone enough to make a dress.

So it is obvious that when 1,156 million square yards of cotton cloth, produced abroad at a cost lower than the cost of production to the U.S. producers, are imported, U.S. producers have no chance to compete.

Furthermore, more than 700 U.S. cotton mills have already been put out of business—in the most prosperous period our country has ever known; and other U.S. cotton mills are going out of business from time to time.

In addition, although in the year before last, 142,000 pounds of cotton yarn—a very small amount, and any good sized mill could manufacture that much in less than 1 month—were imported, last year 22,887,000 pounds of yarn were imported—enough to make a very great quantity of cloth.

So foreign competition is what is really killing the U.S. cotton industry. Unless the U.S. mills can obtain the cotton they use at the same price as the price the foreign mills pay, the U.S. mills will not have a ghost of a chance to compete with foreign mills.

Mr. ELLENDER. In the past we have taken care of that situation by means of tariffs and quotas.

Mr. JORDAN of North Carolina. But they are to be reduced.

Mr. ELLENDER. However, Congress could take action as to them; and increased tariffs would produce more revenue for the Government. If the foreign mills decided to sell their goods in competition with the goods produced by our mills, our Government could collect a tariff on the imports.

But the effect of the bill would be to refuse to let the American taxpayers benefit from that situation. Instead of planning to collect from those who do the importing, the bill would take care of the textile mills in the United States by calling on the U.S. taxpayers to pay the difference between the world price and whatever support price the Secretary of Agriculture fixed under this bill. That is the difference.

Many other U.S. industries are in approximately the same "fix" that the U.S. textile industry is in—and all because of imports.

Consider the situation of the U.S. steel mills. Of course there is a distinction between the steel mills' problem and the cotton mills' problem; I grant that. However, the operators of the U.S. steel mills would also have a right to ask Congress to provide for them a differential similar to the one the textile mills are now requesting, which would be provided if the bill were enacted.

Similar demand could be made by the butter producers, who are in competition with producers of oleomargarine. In that event, butter producers would have a right to say to Congress, "It costs much more to produce butter than to produce oleomargarine; therefore, we should be paid the difference."

That demand could be extended indefinitely.

However, in my judgment we have been getting along very well under the support-price program and by having the textile mills pay at least the loan value of the cotton. I should like to have that arrangement continue.

If the proposal I shall make to the Senate is adopted, it will mean that our textile mills will get cotton for 2½ cents a pound less than they got it for last year, and the subsidy which will be paid to the foreign mills will be reduced by 2½ cents a pound. So the measure I am proposing would save the U.S. taxpayers money, in my judgment. In a few minutes I plan to submit, for the Record,

tables for the years 1964, 1965, 1966, and 1967, to show what would be the costs under a proposal similar to the one which I hope to present to the Senate; what the current law would cost; and what the pending bill would cost. All those figures will be placed in the Record; and I hope Senators will examine them carefully over the weekend. All of them were provided by the Department of Agriculture. The cases which I shall submit are based on the same guesswork which was utilized by the Department in connection with the pending bill.

Mr. JORDAN of North Carolina. Mr. President, at this point will the Senator from Louisiana yield again to me?

Mr. ELLENDER. I yield.

Mr. JORDAN of North Carolina. I wish to comment on a statement the Senator from Louisiana has made repeatedly—namely, that the U.S. taxpayers will have to pay the cost of this program. I am sure he believes that to be true. However, I point out that the money which will be saved by selling the cotton to the U.S. textile mills at the same price as the price at which cotton is sold to the Japanese mills would be passed on to the U.S. consumers. Competition would require that that be done.

Mr. ELLENDER. But that has been done in the past. American consumers have paid the higher cost of production in U.S. mills.

Mr. JORDAN of North Carolina. No, Mr. President. I will tell the Senate what has been happening. We have been putting the cotton mills out of business. Rayon is taking over rapidly. If we keep up that trend for about 4 more years, we shall not need a cotton program, because rayon and other synthetics will have taken over the market. The Senator knows how production of rayon in relation to cotton has increased to the equivalent of about 5 million bales of rayon last year. That is a great deal of rayon.

Mr. ELLENDER. Mr. President, I expect to have printed in the Record and to discuss a few tables which indicate that even with all the cheap cotton that was sold abroad, the decrease in the use of cotton abroad has been about what it has been in this country—perhaps a little more—and there has been an increase in the use of manmade fabrics.

Mr. JORDAN of North Carolina. That is very easy to explain, too.

Mr. ELLENDER. I do not know how the Senator can explain it, but the point is that the decrease is worldwide. It is not only in the United States. It has occurred all over the world. The use of cotton has been declining in favor of manmade synthetics. In my judgment, that trend will continue.

Mr. JORDAN of North Carolina. The reason that rayon consumption has risen in foreign countries is that it can be manufactured in those countries. They have wood. Every country in the world about which I know, except the desert countries, has an available supply of wood. Those countries can manufacture synthetic fibers very cheaply. They do not have to use their gold, silver, or other medium of exchange to pay American dollars in order to get American cotton. Those countries will manufacture synthetics and will continue to do so. There is no question about it.

Mr. ELLENDER. The record shows that the amount of cotton we sell abroad is a pittance compared to what is used. If England, Japan, or any other country wants cotton, they do not have to come to the United States for it. They buy it wherever they can. They do not have to use dollars to buy it.

Mr. JORDAN of North Carolina. They have to use some kind of foreign exchange.

Mr. ELLENDER. I understand that, but the argument has been made that the reason why they have not used as much cotton as they might use is that they do not have the dollars with which to buy it. But that is not correct. Most of the cotton used in those countries is purchased in markets other than the United States.

As I shall point out, the amount of cotton that is exported has been going down. Under the programs we are now considering it is estimated that in 1964, 1965, 1966, and 1967 the amount of export cotton will be around \$5 million bales. I am surprised that the Department did not take into consideration the additional amount of cotton that will be sold and the export production that will be permitted under the bill. The amount would be 5 million bales. I presume that that would include not only the extra cotton that would be produced but also the Public Law 480 cotton. There is no question about that.

Mr. President, as I stated a moment ago, this afternoon the distinguished Senator from Mississippi [Mr. Eastland] and my good friend the Senator from North Carolina [Mr. Jordan] discussed the use of cotton in the United States.

In the United States, in 1952, about 69.9 percent of the total fibers used was cotton. Today the percentage of cotton used is only 60.2 percent. The percentage has been reduced by 9 percentage points.

In the case of manmade materials, the percentage of synthetics used was 22.9 percent in 1952. Today it is 33.6 percent.

Let us see how those percentages compare with the corresponding percentages in countries abroad. For example, take Belgium. In 1952 the 69.2 percent of the fibers used was cotton. Now it is 47.5 percent.

In the case of manmade materials, Belgium, in 1952, used 8 percent of such materials to manufacture textiles. In 1962, the latest year for which I could obtain figures, the percentage was 26.1 percent.

France, in 1952, used 60.3 percent cotton. Today the percentage is 48.3 percent.

In the case of manmade materials, France used 16.2 percent in 1952; now France uses 29 percent.

Consider the case of Germany. In 1952 Germany used 52.8 percent cotton as against 47.3 percent today.

In synthetics Germany used 33.6 percent in 1952 and is now using 42 percent.

Consider the case of Italy. In 1952, in Italy 62 percent of all fibers used was cotton as against 46 percent in 1962.

In the case of manmade materials, Italy in 1952 used 19.1 percent as against 35.6 percent today.

Consider the case of the United Kingdom. In 1952, the United Kingdom cotton amounted to 52.3 percent of all fibers used as against 30 percent at the present time.

In 1952, 18.7 percent of the fibers were synthetics, and today this is now 41.6 percent.

So the change from cotton to synthetics is not peculiar to the United States. It has been going on all over the world. If a close examination were made of the entire problem, it would be seen that in the United States the difference between the use of cotton and manmade synthetics was a little less overall.

Mr. ELLENDER. Mr. President, I should like to take only a few more minutes in order to point up the differences in the cost of the proposed program in comparison with the program that I expect to offer and the current program. The current program envisions a support price, in round figures, of 32.5 cents. The program I shall offer as a substitute would reduce cotton to 30 cents a pound. As I pointed out this afternoon in a colloquy with the Senator from Mississippi [Mr. Eastland], under the Senate amendment that program would cost \$753 million in the following way: trade incentive payment—that is, to the textile mills to enable the textile mills to obtain cotton at world prices—\$312 million. The export subsidy is \$162 million. Public Law 480, \$117 million. Producer payment, \$102 million. That is the differential between the fixed 30 percent and 15 percent additional. Carrying charge, \$60 million. The total is \$753 million.

How do they reduce that figure? By taking cotton that is in CCC stocks and pay in kind to the handlers of cotton, \$305 million. Taken from \$753 million, that leaves a net cost, according to this table, of \$448 million.

Then, in order to reach the lower figure of \$448 million, there is a paper transfer made from Commodity Credit Corporation stocks. Instead of indicating 3 million bales outside of CCC stocks, they have added 500,000 bales to private stocks.

If we put the figure as it should be, at 3 million bales, which is the current amount that is handled by traders, the cost would be increased by \$58 million for a total, under the new program, of \$506 million.

This is the program that I shall propose: The export subsidy remains the same, \$162 million. It is the same as in the bill now pending. The figure for Public Law 480 remains the same, \$117 million. The carrying charge would be \$93 million. The total would be \$372 million.

It is a strange thing, in my judgment, that in giving out these figures the Department of Agriculture puts no value on cotton taken in under the program that I shall propose. The Department states that 450,000 bales of cotton will be purchased. That cotton certainly has value. Yet they do not give it value. But in the table I have prepared, since the cotton is of value, since we have it there, I assign a value of \$115 a bale. That is the world price.

So if we take that into consideration, the cost of the program that I shall propose to the Senate will be \$399 million, in contrast to \$506 million for the program submitted.

Of course, under the current program of 32.47 cents, using the same figures, the same estimates for all programs, that program would cost \$486 million, in contrast to the present program of \$506 million.

I ask unanimous consent that this table be placed in the Record at this point.

There being no objection, the table was ordered to be printed in the Record, as follows:

Upland cotton: Comparison of estimated expenditures under current legislation, H.R. 6196, and current program with cotton at 30 cents, basis Middling Inch

1964 CROP

Major items	Current law		Senate amendment
	30 cents	32.47 cents	
	Million dollars	Million dollars	
Trade incentive payment.....			312
Export subsidy.....	162	¹ 225	162
Cotton products payment.....	13	18	
Public Law 480.....	117	117	117
Producer payments.....			102
Carrying charges.....	93	94	60
Total.....	385	454	753
Change in stocks.....	² 66	³ 112	⁴ 305
Total.....	451	566	448
Value of acquired stocks ⁵	52	80	
Total.....	399	486	
Paper transfer, CCC stocks to private stocks ⁶			58
Total.....			506

¹ Export subsidy at 9 cents per pound.
² CCC acquired 450,000 bales at \$147.50.
³ CCC acquired 700,000 bales at \$160.
⁴ CCC disposal of 2,150,000 bales valued at \$305,000,000; 1,750,000 at \$147.50, \$259,000,000; 400,000 at \$115, \$46,000,000.
⁵ Number of bales CCC acquired valued at world price, \$115.
⁶ Arbitrary paper transfer of 500,000 bales of CCC stocks to private trade valued at \$115 per bale.

Mr. ELLENDER. For the 1965 program, under the proposal I am making, the total cost, using the same figures, will be as follows: The value of the cotton that is taken in will be \$422 million, in contrast to \$577 million under the present program.

I ask unanimous consent that this table be printed in the record.
There being no objection, the table was ordered to be printed in the record, as follows:

Upland cotton: Comparison of estimated expenditures under current legislation, H.R. 6196, and current program with cotton at 30 cents, basis Middling Inch

1965 CROP

Major items	Current law		Senate amendment
	30 cents	32.47 cents	
	Million dollars	Million dollars	
Trade incentive payment			312
Export subsidy	162	¹ 225	146
Cotton products payment	13	18	
Public Law 480	117	117	117
Producer payments			117
Carrying charges	103	105	48
Total	395	465	740
Change in stocks	² 125	³ 176	⁴ 221
Total	520	641	⁵ 519
Value of acquired stocks ⁶	98	126	
Total	422	515	
Paper transfer, CCC stocks to private stocks ⁷			58
Total			577

¹ Export subsidy at 9 cents per pound.
² CCC acquired 850,000 bales at \$47.50.
³ CCC acquired 1,100,000 bales at \$160.
⁴ CCC disposal of 1,500,000 bales valued at \$147.50 per bale.
⁵ Difference between this total and table shown on p. 16 of report due to rounding and inclusion of \$3,000,000 in trade incentive payment for imports and city crop which would not be made.
⁶ Number of bales CCC acquired valued at world price, \$115.
⁷ Arbitrary paper transfer of 500,000 bales of CCC stocks to private trace valued at \$115 per bale.

Mr. ELLENDER. For the 1966 crop, the program I am suggesting will cost \$451 million, in contrast to \$571 million for the program we are now considering.

I repeat, I have taken the same figures, the same totals, the same estimates the Department has taken in estimating the cost of the present program.

I ask unanimous consent that this table be printed in the record, at this point, as well as a table indicating the cost of the 1967 crop. Under the program I am proposing, the cost will be \$479 million, in contrast to the program we are now considering of \$548 million.

There being no objection, the tables were ordered to be printed in the record, as follows:

Upland cotton: Comparison of estimated expenditures under current legislation, H.R. 6196, and current program with cotton at 30 cents, basis Middling Inch

1966 CROP

Major items	Current law		Senate amendment
	30 cents	32.47 cents	
	Million dollars	Million dollars	
Trade incentive payment			312
Export subsidy	162	¹ 225	143
Cotton products payment	13	18	
Public Law 480	117	117	117
Producer payments			119
Carrying charges	115	119	37
Total	407	479	734
Change in stocks	² 199	³ 256	⁴ 221
Total	606	735	⁵ 513
Value of acquired stocks ⁶	155	155	
Total	451	580	
Paper transfer, CCC stocks to private stocks ⁷			58
Total			571

1967 CROP

Trade incentive payment			325
Export subsidy	162	⁸ 225	140
Cotton products payment	13	18	
Public Law 480	117	117	117
Producer payments			120
Carrying charges	130	137	24
Total	422	497	726
Change in stocks	⁹ 258	¹⁰ 320	¹¹ 236
Total	680	817	¹² 490
Value of acquired stocks ¹³	201	230	
Total	479	587	
Paper transfer, CCC stocks to private stocks ¹⁴			58
Total			548

¹ Export subsidy at 9 cents per pound.
² CCC acquired 1,350,000 bales at \$147.50.
³ CCC acquired 1,600,000 bales at \$160.
⁴ CCC disposal of 1,500,000 bales valued at \$147.50 per bale.
⁵ Difference between this total and table shown on p. 16 of report due to rounding and inclusion of \$3,000,000 in trade incentive payments for imports and city crop which would not be made.
⁶ Number of bales CCC acquired valued at world price, \$115.
⁷ Arbitrary paper transfer of 500,000 bales of CCC stocks to private trade valued at \$115 per bale.
⁸ Export subsidy at 9 cents per pound.
⁹ CCC acquired 1,750,000 bales at \$147.50.
¹⁰ CCC acquired 2,000,000 bales at \$160.
¹¹ CCC disposal of 1,600,000 bales valued at \$147.50 per bale.
¹² Difference between this total and table shown on p. 16 of report due to rounding and inclusion of \$3,000,000 in trade incentive payment for imports and city crop which would not be made.
¹³ Number of bales CCC acquired valued at world price, \$115.
¹⁴ Arbitrary paper transfer of 500,000 bales of CCC stocks to private trade valued at \$115 per bale.

Mr. ELLENDER. Mr. President, the question arises in my mind, What is going to happen when we run out of surplus cotton? Under this program we are supposed to retain a certain amount. I think it is estimated that we should have at least 8 million bales on hand, because that is the point which the Secretary of Agriculture is instructed to use as a guideline in estimating the amount of cotton that can be planted over and above the allotment.

Whenever the surplus cotton amounts to 8 million bales, the Secretary of Agriculture has a free hand, without limitation, without yardsticks, to permit the planting of extra cotton. That will, in my opinion, come into competition with the cotton surplus that is on hand.

Remember, under the bill, for 1964, the Secretary is able to increase cotton plantings by 10 percent and reduce the surplus by 1 million bales. But when the surplus is reduced to 8 million bales, the Secretary is left free to permit any amount of extra cotton, as he sees fit.

Those are broad powers. I do not say the Secretary will use them indiscriminately and let large amounts of cotton be produced, but there is no limitation in the law.

As I said a moment ago, I have an amendment at the desk that would strike that provision from the bill. I think it should be stricken from the bill if the amendment that I shall offer by way of a substitute is not adopted.

I have glossed over some of the provisions of the bill. I have not discussed the proposal I hope to present. I shall wait to do that until I offer the amendment. I hope Senators will look over the bill and study the tables I have submitted.

I do not like to say this, Mr. President, but it is true. I have been in the Senate now for 27 years, and I have never seen such lobbying as that to pass the cotton bill that is now before us. Everyone is being imposed on, and I am hopeful that before a vote is taken on the bill it will be studied closely by all Senators. It is my considered judgment that if this bill is passed without amendment, it will not rebound to the benefit of the producers of cotton, yet those are the ones whom I believe the Committee on Agriculture and Forestry and its membership should try to assist.

I do not like to witness the Congress enacting a piece of legislation that will cause the taxpayers to pay this big difference that may exist between the world price of cotton and whatever support price we offer to the growers. And as to that, the parity concept was retained in the bill. The parity concept was not in the bill, but we were able, at least, to amend it so that after 1964 the Secretary of Agriculture will have the authority to fix the price supports ranging from 65 to 90 percent of parity.

Mr. President, with that I conclude and hope that Senators will study the new bill in the light of present law, and that early action will be taken on it.

I cannot say that I was surprised, but in a discussion which took place this afternoon on the subject of beef prices, I understand that efforts will be made to amend the bill to protect the producers of beef.

That may be a good thing to do, but we have not had any hearings on that matter; on the other hand, I doubt that the Senate would have the right, under the rules, to amend the bill in that direction.

I am hopeful that the Senate will take action, one way or the other, on both the cotton and wheat bills at an early date.

I am also hopeful, Mr. President, that no action will be taken by the Senate to separate the wheat provision from the cotton bill, for the simple reason that we have no way of enacting a wheat bill except by attaching it as a part of the so-called Cooley bill.

I am hopeful that if we can take action early next week on both cotton and wheat, we should be able to get a piece of legislation before the President in time, so that it will inure to the benefit of both cotton and wheat producers.

[From Congressional Record, Mar. 3, 1964]

Mr. ELLENDER. Mr. President, I hope Senators will remain in the Chamber a while and listen to what I have to say.

I have now been on the Senate Committee on Agriculture and Forestry for 27 years, and I have had a hand in presenting to the Senate every agricultural bill with which the Senate has dealt during the past 27 years. By a strange coincidence, the Senator who spoke last week, and who in 1955 presented a remedy for the cotton producers, is the same Senator who now is proposing that we extend to the domestic mills a price of cotton the same as the price collected from foreign purchasers of U.S.-produced cotton.

Back in 1955, the Senator from Mississippi [Mr. Eastland], introduced a bill, S. 2702, together with 62 other Senators—Mr. Thurmond, Mr. Aiken, Mr. Allott, Mr. Bender, Mr. Bible, Mr. Bricker, Mr. Bridges, Mr. Butler, Mr. Capehart, Mr.

Carlson, Mr. Case of South Dakota, Mr. Chavez, Mr. Cotton, Mr. Curtis, Mr. Daniel, Mr. Dirksen, Mr. Dworshak, Mr. Ervin, Mr. Fulbright, Mr. Goldwater, Mr. Green, Mr. Hennings, Mr. Hill, Mr. Holland, Mr. Hruska, Mr. Humphrey, Mr. Ives, Mr. Jackson, Mr. Jenner, Mr. Kefauver, Mr. Kennedy, Mr. Kerr, Mr. Kilgore, Mr. Langer, Mr. Long, Mr. McCarthy, Mr. McClellan, Mr. McNamara, Mr. Magnuson, Mr. Malone, Mr. Mansfield, Mr. Martin of Pennsylvania, Mr. Martin of Iowa, Mr. Monroney, Mr. Morse, Mr. Mundt, Mr. Murray, Mr. Neely, Mr. Neuberger, Mr. Pastore, Mr. Payne, Mr. Potter, Mr. Purtell, Mr. Scott, Mr. Smathers, Mrs. Smith of Maine, Mr. Sparkman, Mr. Stennis, Mr. Symington, Mr. Thye, Mr. Welker, and Mr. Young—brought before the Senate a proposal to make cotton more competitive in world markets. That proposal was eventually enacted by Congress, and it did make cotton more competitive in world markets.

Today the same Senator, together with others, is advocating that the domestic mills be permitted to buy American cotton at the same price as that paid by foreign purchasers. Mr. President, that sounds very fine. However, as I have already stated on two or three occasions, the American textile companies have little or no competition within the United States.

Mr. EASTLAND. Mr. President, will the Senator from Louisiana yield?

Mr. ELLENDER. I do not yield now.

Mr. President, the competition, if any exists, is among the textile mills themselves, for the reason that 95 percent of all the cotton that is manufactured in the United States is sold in the best market on earth—to the American people.

I do not care whether cotton sells for 20 cents a pound or 30 cents a pound, in any case, that competition among the American mills will exist.

I have submitted a very simple amendment; to a large extent, it duplicates existing law. The amendment fixes the price of cotton at 30 cents a pound—the same as the price fixed in the bill supported by the Senator from Mississippi.

Mr. PASTORE. Mr. President, at this point will the Senator from Louisiana yield for a brief question?

Mr. ELLENDER. I yield.

Mr. PASTORE. Will the 30 cents a pound price be the one at which the cotton will be sold to the foreign buyers, as well; or will the 30 cents a pound price be imposed upon the American manufacturers?

Mr. ELLENDER. It will mean that the cotton will be sold to the American textile mills at 2½ cents less than the price under existing law.

Mr. PASTORE. But it will still be 6 cents a pound more than the price paid by the competitor who is buying it on the world market, will it not?

Mr. ELLENDER. Yes; but the competitor to whom the Senator from Rhode Island refers is not selling in the same market that the American textile mills sell in. The American textile mills, I repeat, are selling 95 percent of their output to Americans—who constitute the best market on earth, as I have already said.

I ask Senators to bear that point in mind before they make the mistake of voting to saddle on the U.S. taxpayers, a brand new expense item, a subsidy payment, which will amount to \$312 million, for the first year—but one which will continue forever. It is my contention that this type of payment is something new in our cotton legislation; and, in my judgment, it would not change the competition which now exists among the textile mills of America.

Mr. EASTLAND and Mr. PASTORE addressed the Chair.

Mr. ELLENDER. Mr. President, the amendment I have offered will cut the price of cotton to 30 cents—the same price as the one under the bill introduced by the Senator from Mississippi.

Mr. EASTLAND. Mr. President, will the Senator from Louisiana yield for a question?

Mr. ELLENDER. Not at this time.

My amendment would save the taxpayers, at this time, \$168,750,000. It would mean that the cotton textile mills of the United States would obtain cotton at 2½ cents a pound less than the price they pay under present conditions, because the cotton price now prevailing is 32.47 cents a pound, or nearly 2½ cents a pound more than the price which I suggest to the Senate. It would further save taxpayers 2½ cents per pound on all cotton exported.

Mr. EASTLAND. Mr. President, will the Senator yield?

Mr. ELLENDER. I yield for a question.

Mr. EASTLAND. The Senator has spoken of keen competition in the American textile industry. It is very true that such competition exists. Is it not also true that, because of that keen competition, a saving would be reflected to the consumers of our country? Secretary Hodges wrote to the Senator stating that the bill would save the consumers of our country \$700 million.

Mr. ELLENDER. The Secretary of Commerce made that statement. His letter is in the Record.

Mr. EASTLAND. Is it not logical that the keen competition that my friend mentioned would carry that saving on to the consumers?

Mr. ELLENDER. I doubt it. I suggest that it would not affect the cost of the Senator's shirt by one-quarter of a cent. It would not affect the cost of sheets in any measurable amount.

Mr. EASTLAND. Would it not affect the cost of gray goods and yarns, which compose two-thirds of the textile production?

Mr. ELLENDER. Mr. President, the cost of cotton is not the factor that makes the price of shirts and other commodities rise. Labor is one factor; freight and items of that nature are other factors.

Then, years ago, a shirt similar to the one I am wearing could be purchased for \$1.85 or \$2.25. The same shirt now costs \$5.50 to \$6.

Cotton did not rise in price sufficiently to warrant that increase, but still the price went up.

Mr. President, we could almost give cotton to American mills and still they could not possibly compete with the Japanese and other producers of shirts.

Mr. PASTORE. Mr. President, will the Senator yield at that point?

Mr. ELLENDER. I yield.

Mr. PASTORE. The Senator makes a rational argument when he argues in the way he does that basically the cost of cotton is only a very small part of the overall cost of the production of the shirt. But it is a part of the cost. Does the Senator think that it would be fair to the American textile mill and to the American workers in that mill, in our highly competitive market, to allow America to sell a basic commodity which is an integral part of the production of a shirt—cotton—to a foreign manufacturer who is in competition with the American manufacturer, at 8½ cents a pound cheaper than the American manufacturer must pay for the identical cotton, when the American manufacturer is prohibited by law from going into the open world market to buy cotton?

Mr. ELLENDER. Mr. President, in the past we protected our industries through tariffs and quotas. But let us not saddle that cost on the taxpayers of our country. That is what we would do under the bill. We would provide a new plan which would cost the American taxpayers money from now on. According to the studies of the Department itself, the plan would cost in excess of \$300 million a year.

What has the Department stated it would mean? It would mean the use by textile mills of about 1 million bales of cotton more for the present year; and the use of the 1 million bales of additional cotton would cost the taxpayers \$312 million.

Mr. PASTORE. Mr. President, will the Senator yield?

Mr. ELLENDER. In a moment. Under the proposal that I am submitting to the Senate today—and the figures I present are taken from those submitted by the Department of Agriculture—cotton consumption by American mills would be increased not by 1 million bales, but by 600,000 bales. To attain that goal, under my proposal the cost would be \$56 million, in contrast to the cost of \$312 million estimated for the Eastland program.

Mr. President, I hope that Senators will take all those factors into consideration. As I pointed out earlier last week, the difficulty is that the cotton bill of 1958 was not administered as we intended it should be administered. That measure envisioned reasonable restrictions on acreage and lower prices. But the program did not work that way. In 1961 acreage allotments were increased by almost 2 million acres, and the support price for Middling inch cotton was raised to 33.04 cents a pound. If that cotton had been supported for less than the 32.47 cents that we now have, there is no doubt in my mind that we could have worked ourselves down to the point at which the competition to which my good friend from Rhode Island and other Senators have referred would have been lowered.

Does any Senator believe that the cotton growers of our country can sell cotton as cheaply as it could be grown abroad? Does any Senator believe that cotton growers of our country can compete with manmade fibers? Yet such was the chief argument advanced by my good friend the Senator from Mississippi [Mr. Eastland]. That is the goal. We must make cotton competitive not only with foreign growers of cotton, but also with manmade fibers. Everyone knows that that cannot happen. I wish the cotton industry to continue, if possible. But let us not think that the U.S. farmer with all the expenses he has in grow-

ing cotton—with his high labor costs—can produce cotton to compete with producers of cotton in Guatemala, Africa, and other areas of the world, or to compete with Du Pont and other large synthetic mills. Yet that is the goal in the bill. The bill would cover a period of 4 years.

Another point——

Mr. PASTORE. Mr. President, before the Senator proceeds to his next point, will he yield for a question?

Mr. ELLENDER. I yield.

Mr. PASTORE. The Senator from Louisiana has argued that the American cotton producer cannot produce cotton in competition with the producer abroad. He has asked a categorical question, and wisely so: Is there any Senator who for one moment thinks that the American cotton producer can produce cotton as cheaply as the Egyptian cotton producer or the producers of cotton in other parts of the world? In light of that question, by what logic does the Senator think that the American manufacturer can produce a shirt as cheaply as a manufacturer of shirts in Hong Kong or in Japan?

Mr. ELLENDER. Mr. President, I am not saying that he can. Foreign producers and manufacturers can undersell any American producer. The hourly wage in Hong Kong is 11 to 22 cents. Our wage is \$1.89. We cannot compete with that kind of labor, either in the production of raw material or in the manufacture of it. We might as well understand that.

I desire Senators to listen to the statement I am about to make. Under the committee bill we would write into the law a provision that from here on—not for 4 years, because once such a program would be started, it would go on forever—the American textile mills would have the opportunity from now on to buy cotton at world prices.

As the world price goes down, if the price support level remains steady or rises, the subsidy will be bigger. Under the bill reported by the Senate committee, there is no limitation. If the differential between the price support level and the world price of cotton is 11 or 12 cents, that means that the subsidy would be 11 or 12 cents. It could amount to \$60 a bale, or more.

Mr. ERVIN. Mr. President, will the Senator yield for a question as to how a certain provision of his amendment would operate?

Mr. ELLENDER. I shall be glad to do so when I discuss that phase of it.

As I said, the idea behind the bill managed by my good friend from Mississippi is to make it possible to sell, to the textile mills of America, cotton at world prices. As I said, in 1964, that will cost \$309 million. The figure presented to us first was \$312 million. The figures have been revised often. I am using the latest figures given to me by the Department.

The Department estimates that, by giving the textile mills cotton at the same price at which the foreign users receive it, the cost will be \$309 million. That would increase consumption by 1 million bales.

My plan is to give the textile mills a subsidy on the cotton used by them over and above what they regularly use. Let us say they used 8 or 8,400,000 bales last year, but will use more cotton this year. I propose to give them a payment of as much as 10 cents a pound on the excess, if the Secretary of Agriculture sees fit to do so.

According to the estimate made by the Department, if my substitute were approved, it would mean that the consumption of cotton by the textile mills would be increased by 600,000 bales.

What would be the cost? Fifty-six million dollars. My proposal would increase consumption, according to figures given to me by the Department of Agriculture, by 600,000 bales at a cost of \$56 million.

Under the bill being handled by the Senator from Mississippi [Mr. Eastland], the cost would be \$309 million to utilize 1 million more bales.

I hope Senators will take all those facts into consideration when they cast their votes in the bill.

Mr. EASTLAND. Mr. President, will the Senator yield for a question?

Mr. ELLENDER. I yield.

Mr. EASTLAND. The Senator from Louisiana speaks of 600,000 bales of cotton. Does not the Senator realize that those markets are continuing to erode, that it is not 600,000 bales of cotton, but it is practically the entire consumption of those mills that is involved? They are spinning so much rayon into this country that it has to be rationed. They cannot buy it abroad. By July 1 there will be new facilities in operation that will displace 300,000 more bales of cotton. A few months later additional facilities will supplant 200,000 more bales of cotton.

So it is not merely 600,000 bales of cotton that are involved; it is the market for the competition between rayon and cotton at the mill door that is involved, and this is an effort to save a vast cotton market.

First. It would increase consumption 600,000 bales. Of course, I judge the tables my friend is referring to show that consumption will go up in other years. That factor has not been mentioned. It is not a question of 600,000 bales, because the consumption will increase each year in the future. If we had had this law several years ago, we would be ahead 10 or 10½ million bales now.

Mr. ELLENDER. I fear my friend misunderstood me. The amendment before the Senate, the one I offered, would increase consumption, according to the figures given to me by the Department of Agriculture, by 600,000 bales, and the cost for that increase would be \$56 million.

But with regard to the measure the Senator from Mississippi is proposing, the increase in use will be only 1 million bales, at a cost of \$309 million. That is what I am trying to emphasize.

Mr. ERVIN. Mr. President, will the Senator yield?

Mr. ELLENDER. As I said before, the tables which have been presented are from the Department. I do not mean to criticize the Department for the way they have been presented. In the past 5 or 6 weeks we have had many tables presented to us. Basically they are about the same, but the effort is made to show that the proposal which came from the committee is going to cost much less than any other program that has been presented.

Mr. ERVIN. Mr. President, will the Senator yield for a question at that point?

Mr. ELLENDER. I yield.

Mr. ERVIN. That is one of the questions I wanted to ask about this phase of the operation. If I construe the provisions of the Senator's amendment correctly, beginning on line 4, page 1, and ending on line 7, page 2, an American textile manufacturer would not receive any relief whatever or any amelioration of his present condition except to the extent that his consumption of upland cotton exceeded consumption of his base year?

Mr. ELLENDER. That is correct.

Mr. ERVIN. So if a textile manufacturer were unable, by reason of differences in cost of production due to higher labor costs, and due to the differential between what he pays for raw cotton and the price at which our Government enables his foreign competitor to purchase it, he would not receive any relief whatsoever unless he could increase his consumption of cotton.

Mr. ELLENDER. That is correct. He could do it by using more cotton than rayon.

Mr. ERVIN. But he would not be given a scintilla of relief under the Senator's amendment, if I construe it correctly, unless he could manage in some way to increase his consumption of cotton.

Mr. ELLENDER. That is correct.

Mr. ERVIN. So unless economic conditions were such that he could increase his consumption of cotton, he would be left entirely in the present condition, where he has to pay for American cotton \$42 a bale in excess of the amount which the foreign manufacturer has to pay.

Mr. ELLENDER. That is correct; but the Secretary of Agriculture could give relief, without my proposal and without the bill supported by the Senator from Mississippi by simply reducing the support price of cotton to 30 cents. But he has never seen fit to do that. What I am trying to do is to set, for the next 2 years, the support price of cotton at 30 cents a pound. The record is replete with evidence to the effect that cotton can be produced at 30 cents a pound except by the small producer.

What would my amendment do for the small farmer? The bill of the Senator from Mississippi would assist the small farmer by considering all production on 15 acres or less as being produced for the domestic market at a higher support price. The farmer would receive for that cotton, over and above the 30 cents, up to an additional 15 percent of the 30 cents, or 4½ cents, if the Secretary of Agriculture desired to make it so. But I understand that the Secretary of Agriculture has mentioned a figure of 3½ cents a pound, as I pointed out the other day.

Mr. EASTLAND. Mr. President, will the Senator from Louisiana yield?

The PRESIDING OFFICER (Mr. Bayh in the chair). Does the Senator from Louisiana yield to the Senator from Mississippi?

Mr. ELLENDER. Just one moment—I wish to finish my thought first.

The estimates made by the Department of Agriculture show that the amount of cotton that will be produced on the domestic allotment under the plan written into the bill will aggravate for 1964, 5,850,000 bales. That is production under the domestic allotment plan on which a higher support price can be paid. The subsidy on that cotton would be the difference between the support price of 33½ cents a pound, and the world market price, which is 23½ cents a pound, or \$50 a bale.

The land not planted to cotton, the farmer could plant something else if he so desired, but the point is that the small farmer would be taken care of, as I have just suggested. The production of a farmer who planted 15 acres or less of cotton would be considered to be for domestic consumption, and on that cotton he would receive a payment of 30 cents, plus 3½ cents, or 33½ cents altogether.

Under my proposal, in order to take care of the small farmers, all growers of cotton on their first 10 bales would receive a payment in kind of the difference between the price fixed in the bill at 30 cents and the support price for the 1963 crop which is 32.47 cents. So my proposal attempts to take care of the small farmers of the country, not to the same extent as the distinguished Senator from Mississippi, Mr. Eastland, does, but—

Mr. EASTLAND. The Senator from Louisiana continues to use my name. He should yield to me.

Mr. President, will the Senator from Louisiana yield to me?

Mr. ELLENDER. I am glad to yield.

Mr. EASTLAND. Is it not true that this bill is the bill of the Committee on Agriculture and Forestry?

Mr. ELLENDER. The Senator is correct.

Mr. EASTLAND. Is it not true that it is supported by every segment of the cotton industry in this country?

Mr. ELLENDER. Not by any means by every segment of the cotton industry of the whole country.

Mr. President, there was no great urge on the part of the committee to consider the proposal, until just before it was reported out. Many Senators took the same position that I did until the bill was reported. Suddenly, a change took place, less than 2 days before we voted to report the bill. A statement of what should be included in the bill was made available to the committee on the last day of the hearings, and that statement has been placed in the Record. We heard testimony by Mr. Murphy concerning the bill on the last day, and when the roll was called, the bill was ordered reported, and there were only three votes opposed to the proposal that is now before the Senate; namely, mine and that of the Senator from New Mexico, Mr. Mechem, and the Senator from Iowa, Mr. Hickenlooper. Those were the only three negative votes.

Mr. JORDAN of North Carolina. Mr. President, will the Senator from Louisiana yield for a question?

Mr. ELLENDER. I am happy to yield.

Mr. JORDAN of North Carolina. I am sure the Senator will remember that when Mr. Kennedy was running for President, and Mr. Nixon was his opponent, both promised definitely that they would do something to equalize prices in the domestic mills, as well as in wool imports and other commodities, which had completely wrecked those industries in this country.

Finally, President Kennedy came forth with a seven-point program. One of the points was to equalize the price of cotton with foreign mills. So this is not a new program. The House has been trying to pass something. Finally, after it passed something, we took it up and held hearings. So far as I know, every cotton-producing group in the United States is in favor of the bill.

Mr. ELLENDER. The Senator means producer associations, those that signed the petition?

Mr. JORDAN of North Carolina. I am talking about those who grow the cotton, the cotton farmers. I have in my possession many telegrams that came to me this week representing the cotton farmers of North Carolina. They represent the same group of people all over the country.

They are in favor of the bill as reported by the committee.

One other point I should like to mention in connections with domestic mills increasing consumption is that not every textile mill now running full time on cotton can increase its production. The owner is not going to build more mills and lose more money. He could not increase his production immediately, so he could not take advantage of that provision.

On the other hand, if he is now operating half on rayon or some other synthetic, and he should change back to cotton, he would receive today under the new provision 10 cents a pound less. So, if the market happened to fall out from under him—which it very often does—he would have to go back to rayon. Perhaps he would have to rebate the Government for the cheap cotton that he has. Perhaps he would have to chase a man down the street who bought a shirt made of cheap cotton and tell him, “I am sorry, but you owe me a dime.”

We could not get a mill to do business on that basis.

Mr. ELLENDER. I do not make that feature of my proposal obligatory on the Secretary of Agriculture. I am now certain that something can be worked out, if there is a will; and I am certain that if the cotton mills understand, from now on, that the Senate is unwilling to permit them to buy cotton at world prices, they will be inclined to buy more cotton.

The mills of this country have been slow in buying their supply, almost from hand to mouth, because of anticipation of the passage of some legislation in the last few years. Notwithstanding that, during 1963, they will buy about 8,500,000 bales in contrast to 8,325,000 bales in 1962. In 1961 they bought 8,859,000 bales. In 1960 they bought 8,190,000 bales. In 1959, they bought 8,910,000 bales.

I believe the mills have been holding back on buying cotton. If the Congress can act positively today on this bill, and on the substitute I am offering, and let it be known that the mills will be unable to buy cotton at world prices, they will get back into the market.

Mr. JORDAN of North Carolina. Mr. President, will the Senator yield?

Mr. ELLENDER. As our population increases, so will the consumption of cotton.

I point out, as I did last Friday, that the consumption of cotton in certain countries abroad has not increased materially over the years, even though we did sell cotton at world prices. Exports took a big jump in 1956, to 7,598,000 bales. In 1957, it went to 5,717,000 bales. In 1958, it went down to 2,789,000 bales. As I pointed out in the debate on Thursday and Friday of last week, the reduction in the use of cotton in the United States and the increase in the use of manmade fibers has been almost the same all over the world. The situation is not peculiar to the United States. The same thing has occurred all over the world.

Mr. EASTLAND. Mr. President, will the Senator yield?

Mr. ELLENDER. I yield.

Mr. EASTLAND. The Senator is speaking about five countries. He says the situation is true all over the world.

Mr. ELLENDER. That is the only information I have.

Mr. EASTLAND. What the Senator has said is true in those five countries, but it is not true all over the world. It is necessary to take into consideration the total market. In Spain, Austria, and in a number of other countries cotton consumption has increased.

Mr. ELLENDER. What was the increase in the use of synthetics?

Mr. EASTLAND. The countries which the Senator from Louisiana has picked out have the identical problem on imports that we have. In other words, cotton textiles, in large volume, are being imported from Hong Kong and other countries. They have had a reduction in the imports of synthetic fibers. Furthermore, they are doing a big business in synthetics with Iron Curtain countries.

In 1952 the free world consumption had gotten down to 68½ percent. What counts is the total world market. To use five countries throws no light on the subject, because they have their own peculiar problems.

Consumption went down in 1956 to 64 percent. What happened in 1956? We passed a cotton export program. It leveled off so far as the total percentage was concerned. Rayon staple fiber competes with cotton. It was only 8.7 percent of the total market in 1952. By 1956 it had increased to 12.6 percent. Then we passed the export program. There had not been a worldwide trend to synthetics. In 1957 it was around 11 percent. It has hovered around 11 percent since that time.

Mr. ELLENDER. What was it in 1962?

Mr. EASTLAND. It was 12.6 percent. That is the preliminary figure. There had not been an increase in the rayon staple fiber. There has not been an increase in Dacron and nylon and other fibers. There is another fact that must be taken into consideration. A large amount of wool is consumed abroad. Those commodities compete with wool more than they do with cotton. The facts show that cotton has been stabilized largely since 1957, and rayon staple fiber has been stabilized since 1957.

That was due to the cotton export program. With respect to the five countries my friend has mentioned, the figures are correct, but those countries do not make the world market. Consider Austria, Yugoslavia, Spain, and Canada. The outstanding example of what has happened is Japan. Cotton steadily lost out as a percentage of the total market, from 65 percent in 1952, to 53 percent in 1956. It has held its own since 1956, actually going to 65 percent in 1962.

Rayon staple fiber rose from the 18-percent level in 1952 to 29 percent in 1956. After the cotton price came down, the use of rayon staple fiber went to 14 percent in Japan in 1962.

It is the worldwide market that governs.

We have financed a cotton textile industry in Pakistan. Pakistan used to import textiles. She has her own industry now. I do not know, but I suppose that was financed by the foreign aid program. There we have an example of emerging nations having their own industries, which have cut down on exports from the five countries that my friend has mentioned.

Mr. JORDAN of North Carolina. Mr. President, will the Senator yield?

Mr. ELLENDER. I yield.

Mr. JORDAN of North Carolina. The record will show that when the Japanese consumption of cotton went up and the consumption of rayon and other fibers went down, it was due to Japan making shipments into the United States, as against our high-priced cotton. I would like to get this into the Record.

Mr. EASTLAND. Let me ask the Senator a question first. The distinguished Senator from Louisiana has told about his incentive program for the mills. However, would that not discriminate against the mill that has been loyal to cotton and has been using cotton all the time?

Mr. ELLENDER. No. I provided for that in the amendment. They cannot receive payments on a quantity in excess of 20 percent of the base. In other words, if a mill is using 10 percent cotton and 90 percent rayon, it cannot get paid on an increase of more than 20 percent above what it used in the base period.

Mr. EASTLAND. What about the mill that has been 100 percent on cotton?

Mr. ELLENDER. It gets paid on whatever it used over and above to the same extent.

Mr. EASTLAND. It gets whatever it used over and above. That is why the plan is impractical and will not work. A mill that is operating to 100 percent capacity on cotton, probably would have to build another mill.

Mr. JORDAN of North Carolina. That is what I said. The mill that has been loyal to cotton 100 percent and has been operating on cotton cannot expand and get any advantages, but another mill can get it at 10 cents cheaper, and in that way break the first mill.

Mr. ELLENDER. If any of the mills use 10 percent cotton and the rest manmade fibers, they cannot get paid for more than 20 percent of the base. That is how I take care of the problem. What I wish to emphasize is that the substitute would mean the consumption of 600,000 more bales of cotton than is now consumed at a cost of \$56 million, as contrasted under the bill with a cost of \$312 million and a 1-million-bale increase.

Mr. JORDAN of North Carolina. Mr. President, will the Senator yield further?

Mr. ELLENDER. I do not want to labor the point. That is what is going to happen. I am trying to stay as closely in line with the law now on the statute books as possible, and not veer away from a new program which in my judgment would do violence to the producers in the long run. Any cottongrower ought to know that we cannot possibly produce cotton in this country at world prices.

Mr. JORDAN of North Carolina. Mr. President, will the Senator yield further?

Mr. ELLENDER. I yield.

Mr. JORDAN of North Carolina. I believe, as the Senator from Mississippi, Mr. Eastland, said a few days ago, that we cannot guarantee that there will be a reduction in the cost of cotton. He does not have any crystal ball to tell that. The insecticides, fertilizers, weed killers, and all the other things the researchers are now working on have a good chance to reduce the cost of producing cotton. With better seed, better methods of growing, skip rowing, and a great many other things, there is a good opportunity to reduce the price of cotton in the field. Then we can buy it cheaper, and the Government will not have to raise any subsidy.

Mr. ELLENDER. My proposal would have the same effect.

Mr. JORDAN of North Carolina. I know that.

Mr. ELLENDER. As the cost of production of cotton goes down, so will the price. The same provision and the same argument which the Senator is now advancing will apply to the pending amendment, and in effect to the substitute which I am offering.

Mr. JORDAN of North Carolina. I emphasize that as the Senator stated, if we get this subsidy down to 30 cents, it will remain there forever. There will be no chance to get it down. But there will be under this bill, if the cost of production goes down.

One other thing seems to be overlooked in a great deal of the argument of the Senator. That concerns the textile mills in this country competing among themselves.

Let us go back to 1955. That was not so long ago. There were three main countries which exported cotton textiles—not wool. Wool has become a big factor also. I refer only to cotton textiles. Today there are 65 countries which export cotton textiles. I do not have to name all 65. Last year, Japan shipped 359,000 yards of cotton textiles to this country. Hong Kong shipped 275,000 yards. In 1955, they were not shipping any cotton textiles to this country.

Last year, 1.112 million yards of cotton textiles were shipped into the United States. That has happened largely in the past 3 or 4 years under the so-called protective arrangement which has been worked out, under which we would apply quotas on goods coming into this country. Often foreign countries do not abide by the quotas they have agreed on. The arrangement provides that as our population increases, they obtain extra yardage as against our own mills.

Mr. ELLENDER. I am familiar with the increase from Hong Kong. I am familiar with the increase from South Korea. I visited those places. A part of the increase was due to the fact that American tax money was used, largely in South Korea, to rehabilitate 11 old Japanese cotton mills. To add insult to injury, we gave them the cotton to manufacture in those new mills. Believe it or not, they are receiving a quota for shipping cotton in to this country. A good deal of that has taken place in many countries in the Far East. That has been due, of course, to the policy that I have been complaining about. The Senator from North Carolina was in the same corner with me on the foreign aid bill.

Mr. JORDAN of North Carolina. I still am.

Mr. ELLENDER. The fact is that many of the woes the Senator is describing have come from our policy of giving cotton away, and letting it go cheap, and helping them to rehabilitate their mills. We helped Japan to the extent of more than \$3.5 billion in order to put them back on their feet.

We did the same thing in France and other countries. While we have held the umbrella over them for several years, protecting them to a large extent militarily, they have now developed economically. Today, they hold a dagger at our throats because they can now produce material cheaper in some instances than we can. They are surpassing us, and taking many of our markets.

Mr. JORDAN of North Carolina. Mr. President, will the Senator yield?

Mr. ELLENDER. I yield for a question.

Mr. JORDAN of North Carolina. I thoroughly agree with everything the Senator has said. That is exactly what has brought us into this trouble. As I pointed out on the floor of the Senate a few days ago, in 1955, we did not have all these imports. In the short period of time since World War II—and we are supposed to be in one of the finest eras we have ever had, from a money-making standpoint—more than 700 cotton mills have been completely liquidated.

I wish to cite one instance which I checked yesterday. This is not old information. A certain small cotton mill used 73,000 pounds of cotton a week. At 8½ cents a pound that mill is paying more than its Japanese competitor. The cost to him is \$6,205 a week more than the cost of the Japanese. That amounts to \$316,456 a year, which the Japanese mill has to start with, while the American mill is breaking even. Yet the Japanese are allowed to ship cotton into our market, and sell it on our market with a \$316,000 a year headstart—leaving labor out of the picture. Labor costs are in addition. American mills cannot compete laborwise. The Japanese have the advantage over us laborwise. It is 20 cents in Japan, as the Senator pointed out. It is 11 cents in Hong Kong. It is 7 or 8 cents in Spain and Portugal. We know about that. We can produce, and to some extent stay in business, if we can obtain the material. Materials amount to 77 percent.

Mr. ELLENDER. Is the Senator arguing that if the cotton price goes down, it will be possible to materially increase our sales abroad?

Mr. JORDAN of North Carolina. I am not talking about sales abroad.

Mr. ELLENDER. That is the competition the Senator is talking about.

Mr. JORDAN of North Carolina. No, it is not.

Mr. ELLENDER. The Senator wants American industry to be able to compete abroad. Sales abroad will remain at about 5 percent of production as they now are.

Mr. JORDAN of North Carolina. I am not arguing about that.

Mr. ELLENDER. Competition abroad would not increase one iota. American mills would be producing for the American market, the best market in the world.

Mr. JORDAN of North Carolina. May I answer the Senator's question?

Mr. ELLENDER. I wish the Senator would.

Mr. JORDAN of North Carolina. I am not talking about the exports abroad. I know we have lost them to a large extent. I am trying to save what is left of the American market, and keep the foreign competitors from taking it away from us.

Mr. ELLENDER. The point I made a while ago and on last Friday was that the way to do it is to continue our regular program, through tariffs or quotas. Let the Committee on Finance handle that problem. In that way, money might be collected on imports, and the taxpayers would not have to pay out money in order to be able to compete. That is the point I am making.

Mr. JORDAN of North Carolina. I should like to answer the Senator on that point.

Mr. ELLENDER. I wish the Senator could.

Mr. JORDAN of North Carolina. I am not arguing about the tariff, or that to offset this differential, we ought not to collect from the imports coming in our country. We have tried that. It has been denied. There is no possibility of getting it. All we ask is that we be permitted to buy cotton at the same price as anyone else in the world can buy it, and we will take our chances of competing at home and abroad. I know we can come nearer to selling abroad than we can now.

Does the Senator know that on every pound of cotton textiles which we ship abroad, we receive a rebate which makes us exactly even with the foreign producer?

Mr. ELLENDER. Yes.

Mr. JORDAN of North Carolina. We are not worse off or better off from that standpoint.

Mr. ELLENDER. What the Senator is arguing for is competition that arises in our own country; that is what I cannot comprehend.

Since 95 percent of their production is sold in the United States, to the best market in the world, and since the sales abroad are at the same price as the price to those with whom we compete, what are they fussing about?

Mr. JORDAN of North Carolina. Because there is quite a difference. The 95 percent is the market that is lost to us.

Mr. ELLENDER. How is that?

Mr. JORDAN of North Carolina. It is being lost to rayon and other fibers.

Mr. ELLENDER. Does the Senator from North Carolina want the Senate to vote for a proposal that would protect the cotton growers against the low prices of the synthetics?

Mr. JORDAN of North Carolina. Does the Senator from Louisiana want the cotton producers to stay in business? If he wants to have all the cotton producers put out of business—

Mr. ELLENDER. Mr. President, I have heard that argument for the entire 27 years that I have been a member of the Committee on Agriculture and Forestry. For all 27 of those years I have been hearing the same argument—that unless we do this or that, as they request, the cotton growers will be put out of business. That argument was advanced in 1958, when the present law was put on the statute books; and at that time we were told that law would cure all the evils and difficulties, and would put the cotton men on their feet, and so forth. But apparently that law has not done so. I repeat that the reason it has not is that the law we enacted in 1958 was not administered in the way Congress intended it to be administered.

Mr. JORDAN of North Carolina. I admit that had something to do with the trouble—in fact, a great deal to do with it.

Mr. ELLENDER. Of course it did. My hope is that under the law as now written, regardless of whether the Senate votes in favor of my amendment, the Secretary of Agriculture will fix the price of cotton at 30 cents. This is what

he should have done last year. The farmers are asking for it—believe it or not—so as to make cotton more competitive with rayon.

Mr. JORDAN of North Carolina. I agree 100 percent with the Senator from Louisiana on that point.

Mr. ELLENDER. Of course the Senator from North Carolina does.

The amendment in the nature of a substitute which I have proposed—and I emphasize this point—would save the taxpayers, on price supports alone, \$168,750,000; and the increase in the sale of cotton domestically will be 600,000 bales, at a cost of \$56 million, as against \$309 million to sell 1 million bales under the bill. I cannot see any sense in doing the latter.

Mr. JORDAN of North Carolina. I should like to make one further observation, if I may, if the Senator from Louisiana will yield briefly to me once more.

Mr. ELLENDER. Mr. President, the Senator from North Carolina may make a speech at this time, if he wishes to do so; and I ask unanimous consent for that purpose.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. JORDAN of North Carolina. I do not wish to make a speech; but I point out that the Senator from Louisiana knows that by August of this year the Commodity Credit Corporation will possess whatever cotton has not been taken up by the farmers, that has been borrowed against this year. It will have somewhere between 11 and 12 million bales of cotton, in the face of the new crop being raised in 1964; and by the end of next year the Commodity Credit Corporation probably will have 15 or 17 million bales of cotton.

Mr. ELLENDER. Let us not argue about that, because the figures do not show that to be the case. But even if they did, that cotton would have value.

But when we come to figure out the cost of the program under the pending bill, the Department states that the cost will be \$750 million. But the Department deducts from that the amount for the cotton the Commodity Credit Corporation now has on hand, and for which payments-in-kind are made—amounting to approximately \$300 million—and that will cause the cost of the program, so the Department says, to be reduced to approximately \$449 million.

But come next year, the Commodity Credit Corporation, for every bale of cotton it gives in kind, will have to come to Congress, to get Congress to replenish its cash. The Senator from North Carolina knows that.

Mr. JORDAN of North Carolina. No, I do not know——

Mr. ELLENDER. So to argue that that is not the case is, in my opinion, silly.

Mr. JORDAN of North Carolina. I think I can explain it a little better than I have.

In the first place, the taxpayers now own the Commodity Credit Corporation cotton. That cotton is worth only what it will bring in the world market, which is 24½ cents a pound or 23½ cents a pound or 23 cents a pound, or something of that sort. On top of that, there will be the monthly storage charge of 50 or 45 cents a bale, and that will add \$90 million. Then there will be the cost of storage of the other crop.

Mr. ELLENDER. That is the same argument that was used against the 1958 bill.

Mr. JORDAN of North Carolina. I know that; but those costs will exist.

Mr. ELLENDER. I understand; but those are the same old arguments.

My point is that if the past procedure is continued, there will be trouble, no matter what Congress does now. But if the bills Congress has already enacted were administered in the way Congress intended, there would be no trouble.

Mr. LAUSCHE. Mr. President, will the Senator from Louisiana yield for a question?

Mr. ELLENDER. I yield.

Mr. LAUSCHE. When was the subsidy for export cotton adopted?

Mr. ELLENDER. In 1956.

Mr. LAUSCHE. At that time were the cottongrowers in favor of subsidizing the sale to foreign countries?

Mr. ELLENDER. As I pointed out, the bill was introduced by the Senator from Mississippi [Mr. Eastland]; he introduced the bill on behalf of himself and a number of other Senators. They said the purpose was to make cotton competitive abroad. That legislation was enacted, and it is now section 203 of the act of 1956.

Mr. LAUSCHE. So in 1955 the cottongrowers, in order to get broader markets, urged the enactment of the subsidy on foreign sales, did they?

Mr. ELLENDER. That is correct, and I pointed that out at the beginning of my remarks.

Mr. LAUSCHE. Is it true that now the cotton growers are arguing that what was done in 1956 is harmful to them?

Mr. ELLENDER. Yes.

Mr. LAUSCHE. But instead of asking Congress to repeal the 1956 law, which they say is harmful, they now urge that Congress subsidize the price of the 8,600,000 bales which now are being used in the domestic manufacture; is that correct?

Mr. ELLENDER. Yes. Of course, the reason why the original provision was enacted in 1956 was to make cotton more competitive abroad.

Mr. LAUSCHE. Yes.

Mr. ELLENDER. In other words, the domestic prices were much higher than the prices abroad, and it was then impossible to move our cotton in the world market. So a differential was established. As I have pointed out, the year that was done, the sales abroad increased somewhat. But later they decreased.

Mr. LAUSCHE. I should like to have the Senator from Louisiana express an opinion on the following statement:

First, we can recognize the force of the argument now being made; namely, that the subsidy on the exports has been harmful to our domestic cotton industry, and that therefore the subsidy should be repealed.

Second, recognizing that the situation is harmful, in an effort to cure it we can now adopt a subsidy for the domestically used cotton which, according to the statement of the Senator from Louisiana during the taking of the testimony, would cost \$312 million.

Mr. ELLENDER. The Senator is correct.

Mr. LAUSCHE. Is it not a fact that if we were to follow the course now recommended by the committee, we would compound the wrong which it is claimed was committed when we subsidized the foreign sales?

Mr. ELLENDER. They claim that they have been put to great disadvantage by virtue of the action taken in 1956. They desire to rectify that situation now by giving the textile mills of America the same advantage, that is, the world price.

Mr. LAUSCHE. If in 1956 a wrong was committed, would it not be better to wipe out that wrong rather than to commit another wrong by subsidizing the domestic processors?

Mr. ELLENDER. I do not believe we could do that now, for the reason that cotton production has increased greatly throughout the world. It has increased to such an extent that the amount sold by us normally has been more or less decreasing. It held steady for a while. I would not say that occurred under a giveaway program, but in the sale of cotton abroad for soft currencies. The program has held up the foreign market to some extent.

All in all, the argument would really be that unless we were to provide a differential for the sale of cotton abroad, the chances are that we would have to store much of the cotton.

We could not sell it abroad at the support price. Something must be done in order to make it move. That was really the argument advanced back in 1956.

Mr. LAUSCHE. The position taken by the Senator in respect to repeal of that law is sound. It would be pretty hard to pull out all those roots. But from a logical standpoint, if the proponents of the present measure argue that what was done in 1956 has harmed them, the inevitable consequence would be to repeal the 1956 law. That is the logic of the situation.

Mr. PASTORE. Mr. President, will the Senator yield at that point?

Mr. ELLENDER. I wish to answer the Senator's question first. The fact is that ever since the passage of the bill to which the Senator has referred, cotton production has increased, and so has the production of manmade fibers. I realize that insofar as the domestic textile mills are concerned, they are at a great disadvantage in competing with similar industries abroad. As I pointed out, that disadvantage is not because of the price of cotton. Cotton products exports are subsidized on the same basis as raw cotton exports. But our processors cannot compete in the world market.

The reason? Labor.

Mr. LAUSCHE. I appreciate that labor is a factor.

Mr. ELLENDER. There are various other factors, such as freight. As I have pointed out on several occasions, there is no doubt that we in the United States are at a great disadvantage. That statement applies not only to textile mills, but also other industries, such as steel mills. There are a great many steel mills in Ohio.

Japan can deliver steel in the United States and make a profit from the sale at a price that would be equal to our cost of manufacture. The same thing is true of monel metal and other commodities. The fear is that if we were to open the door for cotton textiles, other industries that suffer because of foreign competition would have a right to come to us and say, "You have helped the textile mills. Why do you not help us?"

Mr. LAUSCHE. Mr. President, I concur with what the Senator has said. I am rather certain that if we adopt the new program, the precedent will be established for other segments of our economy to come to Congress in the future and ask that the Congress do for them what has been done for the cotton processors.

Mr. ERVIN. Mr. President, will the Senator yield for a question?

Mr. ELLENDER. I yield.

Mr. ERVIN. Is not one of the possible answers to the question asked of the Senator from Louisiana by the Senator from Ohio that the political animal frequently does not behave in either a logical or a direct manner? We could cure the situation by repealing the subsidy provision of the law of 1956, but such action would lower the price of raw cotton in our country.

Mr. ELLENDER. It would not lower it.

Mr. ERVIN. It would make it less marketable. The industry would be deprived of its foreign markets.

Mr. ELLENDER. Less cotton could be sold abroad.

Mr. ERVIN. So there is not much of a political possibility that it would be done for that reason. Is that not true?

Mr. ELLENDER. That is my view. It would be difficult. The law enacted in 1956 was an effort to make cotton more competitive. It was believed that we could sell more cotton abroad. But apparently now, the law has come to haunt us, according to the arguments made last week and this week.

Mr. PASTORE. Mr. President, will the Senator yield?

Mr. ERVIN. Mr. President, if the Senator from Louisiana will yield for one or two additional questions, I shall be through.

Mr. ELLENDER. I yield.

Mr. ERVIN. Does not the Senator know that the textile industry has been praying both to the Congress and to the executive branch of the Government to establish quotas upon the imports of foreign textile products in an effort to alleviate the condition, and that, in large measure, those prayers have been uttered in vain?

Mr. ELLENDER. I do not know to whom the industry prayed, but I do know that efforts were made to establish quotas and tariffs. There is no doubt about it.

Mr. ERVIN. Does not the Senator know that those prayers, to whatever good they may have been directed, have largely fallen on deaf ears?

Mr. ELLENDER. I do not know about that. But the textile mills have been praying quite a bit for the passage of the present bill. I fear that if we were to pass the bill, as my good friend the Senator from Ohio pointed out a while ago, a precedent would be established.

Why do we not proceed in the regular way to solve the problem? Let us have sufficient courage to have tariffs or quotas imposed by law.

If only there were as much effort put into obtaining quotas and tariffs as has been put in obtaining passage of the bill before the Senate, we ought to be able to override the State Department.

Mr. ERVIN. Does the Senator from Louisiana know that some Senators have insisted upon the imposition of an equalizing import fee? Does he not know that every time we have prayed to the executive branch of the Government that that be done, instead of doing that, it has sent its emissaries abroad to negotiate further reductions of tariffs?

Mr. ELLENDER. In the past several years, many industries in our country have been badly hurt, so much so that many are in trouble. That result has come about because some members of the State Department have been looking out for the interests of foreigners, rather than for the interests of the people in the United States.

Mr. ERVIN. It seems to me, as the Senator has stated, that our Government has loaned money or given money to foreign countries to build up textile industries in those countries. In many cases, it has given cotton to foreign manufacturers to make textile goods to be shipped into this country. It has given them a differential which results in the two-price cotton system. It has also been giving them quotas of the domestic market.

The action of the Federal Government in respect to the cotton textile industry for some years has reminded me of the man who wanted a short-tailed dog, and cut off his dog's tail a little at a time to keep it from hurting so much. I do not know whether the Senator agrees with me that that is an apt illustration of the action of the Federal Government in respect to the textile industry, but it seems to me that it is.

Mr. ELLENDER. For the past several years, as chairman of the Senate Committee on Agriculture and Forestry, I have been doing all in my power to improve this Nation's farm programs. I have worked for improved wheat programs, feed grain programs, dairy programs, and would now work for an improved cotton program if I were convinced of its necessity.

However, the bill before the Senate today is not an improvement on the existing program. As a matter of fact, in my opinion, it is detrimental to the entire cotton industry.

In order to make cotton more competitive it would change the existing program entirely. It would add to costs. It would lower farm income. And at the end of 4 years it would leave cotton farmers in a position where they would be forced to produce at world prices. Mr. President there is abundant evidence before the Senate that this would ruin our domestic cotton industry, for admittedly American farmers cannot produce at world prices.

Mr. President, this bill would attempt to make cotton more competitive by providing a subsidy to domestic mills equal to the difference between the support price and the world price. The Department of Agriculture has estimated that the increase in consumption, because of this subsidy, would amount to 1 million bales of cotton. But, Mr. President, the cost to the American taxpayer would amount to \$312 million. Just think, Senators, this would cost \$312 million to increase consumption by 1 million bales.

The other principal purpose of the bill is to reduce our surplus of cotton. However, this bill also provides for the production of cotton in excess of allotments. In other words the bill goes in opposite directions at the same time. While the Department of Agriculture has not estimated the cost of this provision, it is clearly evident, that each bale produced on this excess acreage will replace a bale of cotton which could have moved out of Government warehouses.

These two provisions, in my opinion, are unconscionable, and have forced me to oppose my committee. As a result I had prepared an amendment, which is now pending.

Mr. President, my amendment really provides an incentive for mills to increase the use of cotton. Further, without a doubt, my proposal is demonstrably less costly than the bill, and additionally is patterned within the provisions of the present law.

First my amendment sets the price support for cotton at 30 cents per pound. Simply put, this means a savings to taxpayers of \$62.5 million on cotton exports. In addition, it permits domestic mills to purchase cotton at an estimated savings of \$106 million. This provision alone saves money for both taxpayers and consumers.

Second, and most importantly Mr. President, my amendment provides a real incentive for domestic mills to increase the use of cotton. It would set a base for each domestic mill based on 1963 usage. If a mill used cotton in excess of that base it would provide for a payment-in-kind of up to 10 cents per pound.

Mr. President, my amendment accomplishes what the committee bill intends, but, at a substantially lower cost. The committee bill would cost American taxpayers \$312 million in the form of a domestic subsidy to increase consumption of only 1 million bales of cotton. My amendment, on the other hand, would result, according to Department estimates, in an increase of 600,000 bales of cotton at a cost of only \$56 million. In other words, I achieve two-thirds of the increased use at a cost of only one-sixth of the cost of the committee bill.

Mr. President, I predict that unless my amendment is adopted this Senate will again be considering legislation at an early date to correct inequities brought about by the bill.

Producers will suffer, the taxpayer will suffer, and yes, the whole of the cotton industry will suffer. I sincerely hope that the Senate will follow my advice.

The CHAIRMAN. Thank you very much.

Our next witness will be Mr. Rhodes.

You may proceed, sir.

STATEMENT OF F. MARION RHODES, PRESIDENT, NEW YORK COTTON EXCHANGE

Mr. RHODES. My name is F. Marion Rhodes. I am president of the New York Cotton Exchange and I am appearing here today on behalf of that organization.

Prior to 1960, when I became president of the cotton exchange, I had served in the Department of Agriculture for 27 years; for the latter half of that period I was in charge of the cotton program.

A review of our cotton program is not only timely but essential. The cotton economy of the United States is in trouble and this trouble is very largely due to the Government cotton programs which we have been pursuing. A new cotton program is necessary if we are to solve the problems that beset cotton and give the cotton economy some promise of viability and growth for the future.

The committee has before it legislation relating to cotton, although no such legislation was sent forward by the President as part of the omnibus farm bill. Rather than testify to any specific bill, I will address myself to the elements of a constructive cotton program that will increase sales, including exports, reduce costs and Government inventories, and maintain farm income. The basic principles of such a program were outlined to this committee last week by the Secretary of Agriculture. I cite the relevant portion of his statement:

The overwhelming majority of cotton experts believe that U.S. cotton must be fully competitive in domestic and export markets * * *.

A basic improvement which I hope this committee and the Congress will give strong consideration is to free the Government of the responsibility of buying and selling cotton. This is a task we do not want, and one we cannot perform as effectively as the open market.

It becomes especially important in the current crisis, for the old axiom "export or die" is particularly true in the case of cotton. Historically we have exported one bale in three. With rising yields and growing competition, increasing attention must be given to the foreign market.

After 4 years of experience, I am convinced the best way—as a practical matter—to maximize American cotton exports is to move cotton through the private trade freely at world prices. We can best accomplish this through a low-loan rate—near the world price—that would permit cotton to move freely into export. Grower income could be supplemented by direct payment in cash or in kind or by diversion payments.

This, to my mind, is as concise and accurate a statement on cotton as was ever made by a Secretary of Agriculture. I believe the Secretary's proposal is the only one which offers a real solution. To explain why this is so, I propose to examine briefly the major elements of the cotton situation and then, based on the diagnosis, suggest the cure.

The problems of cotton can be summarized as follows:

(1) U.S. cotton producers are no longer sharing in the growth of markets for cotton, but instead are losing ground to manmade fibers at home and to foreign growths abroad. We have barely been able to hold our cotton production level while production around the world has been rising sharply. In 1945 foreign free world production (exclusive of the United States) was 8.5 million bales; for the marketing year 1964-65 this production is expected to be 22.5 million bales—the fifth consecutive year of record production. Over this same period the Communist countries have more than tripled their cotton output and over these same 20 years—despite an increase in population of 50 mil-

lion people—U.S. cotton production has remained static. In recent years production has exceeded consumption plus export, leading to the buildup of large inventories. This static production in the United States has required less and less acreage since yields per acre are today at least double what they were 20 years ago. Quite obviously this is an intolerable situation so far as the American cotton producer—particularly the efficient producer—is concerned.

(2) Our export situation has seriously deteriorated. Where we were at one time by far the major cotton exporter of the world, foreign exports have risen sharply since the late thirties when the U.S. Government began its support of cotton with loans that were higher than market price. Our share of the world market has steadily declined since that time. In the 1925–29 period, we accounted for some 60 percent of the world market; in the 1960–64 period, for 30 percent. Our exports this year are not likely to be much above 4 million bales, down from 5.6 million bales last year. Had we been able to keep our share of the world market that we enjoyed in the late fifties, our exports this year would have been about 7 million bales and we would have been earning for the U.S. balance of payments an additional \$400 million in cash income.

Not only have our exports been declining but, in contrast to our overall trade statistics, the percentage of our cotton sold for free dollars has been declining in recent years. This reflects loss of sales to competitors in our traditional markets of Western Europe.

(3) Cotton has also been losing out in the domestic market to man-made fibers. Although our actual domestic cotton consumption went up somewhat in 1964, cotton's relative share of the textile market has continued to decline from about 85 percent in the 1930–34 period to less than 55 percent in 1964. Even in the last 2 years this decline has continued: from 55.7 percent in 1963 to 54.5 percent in 1964.

The downtrend has also been in evidence in relative per capita consumption by U.S. mills. This has gone down from 31 pounds in 1945–46 to about 22 pounds today while per capita consumption of manmade fibers has risen.

(4) The end results of these trends are twofold:

(a) Carryover of cotton in the United States has gone up. By August 1 of this year the Department of Agriculture has estimated carryover at 13.6 million bales and many of us in the trade feel that it will go over 14 million. This is an increase of almost 2 million bales over the year before and would come close to the largest carryover in history—14.5 million bales in 1956. In effect, the United States will be holding almost all of the world surplus of cotton. We are not only the residual supplier of cotton in world markets, but we are underwriting the supply of other countries with our large and expensive stocks.

(b) Large carryovers mean large costs to the taxpayer. Taking into account all elements of the cost of the cotton program, the total cost for the year ending July 31, 1965, is estimated to be between \$900 million and \$1 billion, compared to the anticipated cost of \$481 million. By contrast, the total value of the U.S. cotton crop is about \$2¼ billion. The ratio cost to value, the cost of the program to the value of the crop, is more than one to three. The source of all this difficulty, I believe, is clear: cotton has not been permitted to compete effectively

in either domestic or foreign markets. The root of the problem is the above-market loan to producers. The effect is that cotton is driven into storage instead of moving into the normal channels of trade through the marketplace to the consumer. The continued attempt of the Government to make the cotton market pay the cotton farmer what the Government thinks the farmer should get for his cotton will only succeed in destroying the cotton industry in the United States.

The effect of this policy is most clear in export markets. By fixing the export price of cotton we have given our foreign competitors a stationary target to shoot at. We have in effect held a price umbrella over foreign production and assured foreign producers a ready market for this output. We have become the residual supplier of cotton on the world market. If things continue as they are it will not be long before we lose even the 4-million-bale export market which we enjoy today.

The CHAIRMAN. Are you saying that the cotton that was sold since the Congress enacted the present law has not been sold at world prices?

Mr. RHODES. No, sir.

The CHAIRMAN. You are not saying that?

Mr. RHODES. No. I am saying that the amount of cotton that has been sold this year has gone down very materially from the preceding year.

The CHAIRMAN. Since the objective of the present law is to sell cotton both to domestic mills as well as foreign mills at world prices, I am just wondering why it is that our mills did not consume more than they did, and why it is that our exports went down.

Mr. RHODES. Well, the American mills have consumed about 800,000 bales more or will consume about 800,000 more in this marketing year than they did in the preceding marketing year.

I think they would probably have consumed even more than that had the program been on a longer term basis; the second point is it takes a certain amount of time for a program like this to become effective, and I think we could look forward if we maintain a one-price system to further increases in domestic consumption.

I did not mean to infer in any way that there had been any distinction between domestic and the export market prices. Since this present law went into effect, cotton has been sold to both domestic mills and foreign mills, at the same price.

The CHAIRMAN. Well, since the law provides for the sale of cotton at world prices, why is it that purchasers from abroad bought cotton that was not produced in this country. As you know, they say American cotton is so much better than cotton from South and Central America or from Asia, in fact any part of the world, and I wonder if you could tell us why it is that the exports have so declined?

Mr. RHODES. The exports of U.S. cotton have declined because foreign importing countries can buy cotton from other cotton-producing countries at 50, 75 points below the price they can buy it in this country. As a result of that they buy up all the cotton that is available in other countries, and come to the United States only for the residual amount they need to fill out for the balance of the year.

The CHAIRMAN. Then we are not selling at world prices if that is true.

Mr. RHODES. That is correct. I was merely pointing out that we are selling cotton at the same price to domestic mills and to foreign mills.

Senator AIKEN. What about handling and transportation charges, how do they compare with other countries?

Mr. RHODES. That would vary some, of course, depending on the part of the world. But I think in most of the other cotton-producing countries that are closer to European markets, than we are, transportation charges would be somewhat lower.

Senator AIKEN. Would not they have lower transportation costs also?

Mr. RHODES. Of course, they have——

Senator AIKEN. And possibly handling charges and lower storage charges?

Mr. RHODES. Yes.

Senator AIKEN. So when we sell at the same price we really are charging more to a foreign buyer.

The CHAIRMAN. No, I do not think it costs more.

Senator AIKEN. It is the same price f.o.b. New Orleans?

The CHAIRMAN. I do not think it costs more to send cotton from New Orleans than it does from Brazil.

Mr. RHODES. I do not think so either, but it would cost more than to send it from Turkey or Greece or Egypt or some other countries that produce cotton.

The CHAIRMAN. That is the problem. I cannot understand that with American cotton being the best, according to what we hear, and the fact that we intended under this law that cotton be sold at world prices, as to why it is that we failed to sell as much cotton during the current year as we did previously.

Mr. RHODES. Mr. Chairman, I would like to repeat again that we have sold cotton at the same price to domestic and foreign mills, but we set our price at the beginning of each year, and that price stays the same throughout the year, which makes it possible for other exporting countries to gradually shade under our price and take the markets away from us. The only way that we will ever stop this is to open up our cotton to a completely competitive market, and let it sell in the marketplace rather than be sold under a price fixed by the Commodity Credit Corporation.

Senator JORDAN of North Carolina. In other words, what you are saying is that even if the CCC sold its cotton, they would sell on a day-to-day basis if Brazil had 50,000 bales to offer and offered it at 25 cents, we would meet the 23-cent price or go to 22 $\frac{7}{8}$.

Senator MILLER. He said they set the price at the beginning of the year.

Senator JORDAN of North Carolina. That is what we are doing now, and that is the reason they sold the cotton.

You are saying what we should do.

Mr. RHODES. Have a completely free market.

Senator RUSSELL of South Carolina. From day to day.

Senator JORDAN of North Carolina. Even if the CCC does set it, a free market.

Senator MILLER. When you are talking about a stationary price this is what you are talking about, a stationary price at the beginning of the year, which would be above the world market price as time goes on.

Mr. RHODES. That is right. Just last week the CCC announced their subsidy rate would be 5.75 for the next marketing year. That tells every other country in the world how to start figuring to get under us.

The CHAIRMAN. All right. Proceed.

Mr. RHODES. If that happens and if we fail to secure a growing share of the domestic textile fiber market, the cost of the program will rise when more and irresistible pressures will develop that, at the very least, will result in substantial cutbacks in acreage and production for the United States. H.R. 8149, introduced by Chairman Cooley and recently considered by the House Agriculture Committee, provides for a 2-million-acre reduction in the minimum national acreage allotment; unless we deal with the problem of cotton realistically, a reduction of this amount will be only a beginning.

This committee and this Congress have an unparalleled opportunity this year to write cotton legislation that will solve the cotton problem in a realistic and constructive manner. In order to do this, we must reach the root of the problem which is the above-market loan. Prices must be permitted to adjust in response to market forces; to accomplish this, the loan—if there is to be one—must be fixed at a sufficiently low level so as to avoid interference with the marketing of cotton. The income of producers should be fully protected by means of direct payments. The fact remains that the greatest monetary benefit to producers from a given allocation of funds would be accomplished if payments were made directly to the intended beneficiaries, rather than being passed through several hands before reaching the producer. Such payments should be made only after the farmer's production has entered the channels of trade. Under this type of program the futures market could return to normal operations and again perform the important function of providing a true hedge for producers, merchants, and mills. This hedge protection would enable the cotton industry to operate on a smaller margin and still make a profit.

It cannot be overemphasized that it is only through the expansion of cotton consumption at home and abroad that the cotton producer in the United States can have real hope for the future. The program we have suggested protects the producer's income directly through income payments instead of a loan and, even more importantly, by moving his cotton through the marketplace at competitive prices to the consumer.

The cotton program which we have had in existence has left us with a considerable number of problems.

The CHAIRMAN. When you say the cotton program, you mean the one we enacted last year?

Mr. RHODES. That one, plus the ones prior to that, since we have been having a loan that was way up above the actual value of the cotton; and, we have built up stocks on two or three occasions to very high levels, and have only been able to reduce them because of war or at an expense of about \$2 billion in the case of the last time they were cut down.

The CHAIRMAN. I do not think you are stating the facts correctly there, because in 1958, through the 1958 law, we had reduced it over a period of 2 years from almost 14 million bales to 7 million bales.

Mr. RHODES. It cost \$2 billion to do that.

The CHAIRMAN. No. How?

Mr. RHODES. Through the subsidies that we were putting out.

The CHAIRMAN. Of course, the cotton program remained.

Mr. RHODES. The cotton program remained but the cost to the U.S. Treasury was approximately \$2 billion to cut it down from 14.5 million bales down to about 7.7 million bales.

The CHAIRMAN. I do not know the exact figures, but I do know that under the act that we put on the statute books in 1958 it was cut back, and that was the one we are trying to resuscitate.

Mr. RHODES. I was in the Department of Agriculture and directing the cotton program at the time we got the carryover from 14.5 million bales down to about 7.7 million bales.

The CHAIRMAN. What do you attribute this cutback from 14 to 7 to, 2 years after we passed the 1958 act, since you were in the Department? I wish you would tell us for the record.

Mr. RHODES. Paying \$42.50 a bale to get it out of this country, 8½-cent export subsidy.

The CHAIRMAN. Was that the first time that we sold cotton abroad with a subsidy?

Mr. RHODES. No, sir. The first sale was in January and February of 1956 when we sold 1 million bales of Middling 15/16 and shorter cotton for export.

The CHAIRMAN. Well, it is my recollection that the trade wanted that, that is, the people growing cotton as well as those who handled cotton, that there should be a differential between the cotton sold abroad and what was paid here, and that by selling cotton at world prices that we would move more in the trade.

Mr. RHODES. We did.

The CHAIRMAN. In foreign trade.

Mr. RHODES. We did, of course, increase our exports.

The CHAIRMAN. Certainly.

Mr. RHODES. The only point I am trying to make, Mr. Chairman, is that it cost \$2 billion to do it, and I think it could be done much cheaper by letting the market operate and give whatever needs to be given directly to the producer rather than let it sift down to him through various other hands.

The CHAIRMAN. I do not know what such a program as you are advocating would cost, but I do know this, that last year the proponents of the present law, said unequivocally, and it is in the record, said that the surpluses would be reduced by 1,750,000 bales, that the cost would be \$448 million. But instead what have we? An increase of over 1 million bales over last year, and the cost almost \$900 million, double what was said. So I do not know. I am getting—

Mr. RHODES. Fortunately for me, Mr. Chairman, I was not one of those who made those statements.

The CHAIRMAN. Weren't you for the program of last year?

Mr. RHODES. I was. Really we were for, what was called the Talmadge program, but in preference to maintaining what we had, of course, we were for something different. I still think the program passed last year was better than the program the year before.

The CHAIRMAN. Did not the Cotton Exchange, the New York Cotton Exchange, support the program that was put on the statute books last year? I thought you did.

Mr. RHODES. First we supported a direct payment program, and have for the 5 years I have been with the Cotton Exchange. We have never varied from that position.

The CHAIRMAN. Compensatory payments.

Mr. RHODES. Yes, sir.

The CHAIRMAN. So that cotton could have a free market.

Mr. RHODES. So cotton could have a free market; yes, sir.

Senator JORDAN of North Carolina. Mr. Chairman, may I ask him a question?

Mr. Rhodes, when you are talking about the previous cotton that had been moved out when you supported it at 8½ cents, that was to bring it down in competition with the world market of cotton supposedly.

Mr. RHODES. That was our attempt.

Senator JORDAN of North Carolina. That was your attempt to do that.

Mr. RHODES. Yes.

Senator JORDAN of North Carolina. Now, the reason the Secretary dropped it to 6½ cents was because the loan came down from 34.47 to 30 and, of course, it is not 29, as you know, and that is the aim now—to put cotton at the world market price again. But having fixed the price just like he did recently, he did the same thing he did last year, and all they have to do is wait, they will buy the rest of the world cotton and then come and buy ours. What we should have done is to let Brazil set the price and we sell what we want to. Say, “You set your price and we will sell ours” and we would get the business.

The CHAIRMAN. Proceed.

Mr. RHODES. Quite obviously, unless we make a start, they will only be multiplied. For example, we will be faced with a carryover of about 14 million bales on August 1. A carryover of this size can raise havoc with the marketplace unless care is taken to provide the proper insulation. The treatment of stocks, of course, depends on the level of current production and the overall supply and demand situation. Obviously, the more production is cut back, the easier it is to dispose of stocks without breaking the market price.

Any cotton program which maintains producer income and reduces our present burdensome carryover stocks will be expensive. I believe, however, that it is clear that our proposals would result in a cotton program far less costly than the present one and one which could approximate the cost of \$500 million a year which the Secretary of Agriculture identified as the administration's goal. It would be cheaper because the Government would not acquire cotton, because carrying charges would be low, and because cotton would move into export markets without the need for Government subsidies. Farmers' incomes would still be protected at the same levels as at present by means of direct payments, and U.S. cotton textile mills would still be able to buy raw cotton at world market prices.

Certain producer groups, while recognizing the merits of this approach, have expressed concern about it because they feel that direct payments would be an invitation to a limitation or ceiling on such direct payments. We would oppose any limitation on direct payments. Moreover, I have not heard any member of this committee or the Congress express support for limitation on direct payments.

It should be recognized that the direct-payments approach is not a new one; it would merely be an extension to cotton of an approach that is already widely and successfully used in other farm programs. In fact, this approach is the chief method being used to assure farmers of a fair income. In fiscal year 1965 expenditures on direct payments are estimated at approximately \$2 billion; in comparison, net spending on producer loans for the same period is about \$1.4 billion. Direct payments programs are in force for wheat, feed grains, wool, and sugar. Yet these programs are going forward. There is no more reason to expect limitations for cotton than for any other agricultural program.

We believe that the kind of cotton program we have outlined here today would benefit every segment of the cotton economy:

(1) Producers' income would be protected over the long and short runs.

(2) American textile mills would continue to be assured of a supply of cotton at world market prices without being accused of being the recipients of a subsidy as under the present law.

(3) With cotton moving into the market instead of Government inventories, the cost of the cotton program will be reduced.

(4) Only such an approach can help save the export market for American cotton with direct and important benefits to the U.S. balance of payments.

The CHAIRMAN. What would you expect the Government to do with the 14 million bales they are going to have on August 1?

CCC RESALE PRICE

Mr. RHODES. Mr. Chairman, we have given a lot of thought to this matter. We agree with the proposal made by Mr. Kempner. We think you should insulate current stocks to a certain extent, and probably can do it best by fixing a quantity to be released at specific prices.

Senator JORDAN of North Carolina. Per year?

Mr. RHODES. Per year.

The CHAIRMAN. But he fixed the first million bales at 23 cents, the next million at 23½, as I remember, and the next at 24, and the rest of it at 25.

Mr. RHODES. That is in the event we have a crop failure, for instance, like we had in 1950, when the United States produced only 9.6 million bales of cotton. If we ever have another crop like that, you might need to be able to release 5 or 6 million bales all in 1 year, and I do not believe it would be wise for the Congress to tie it up so it could not be released at any price.

The CHAIRMAN. Well, the facts remain, though, that the first 3 million bales you would set the figure at between 23 and 24½ and the rest of it at 25 cents.

Mr. RHODES. Yes.

The CHAIRMAN. But retain it until such time as you could sell it for that; is that right?

Mr. RHODES. Yes, sir; that is right.

Senator JORDAN of North Carolina. It might be desirable, Mr. Chairman, to stretch that over a little bit more than 3 years, because 16 million bales of cotton to hit the market in addition to your crop—

The CHAIRMAN. No. The first year only a million bales, the second year a million bales, the third year a million bales, and thereafter at 25 cents.

Mr. RHODES. No; you could release more than a million in a year if you had a need for it.

The CHAIRMAN. Oh, yes.

Mr. RHODES. The first million would go at 23, the next at 23½, and the next at 24. If you had a crop failure and you needed 5 million bales you could release all of it.

The CHAIRMAN. If you had a complete failure you could release it all if you wanted to.

Mr. RHODES. That is right.

The CHAIRMAN. But his idea was to release it at less than a million bales the first year.

Mr. RHODES. At that price.

The CHAIRMAN. 23 cents.

Senator RUSSELL of South Carolina. Not unless it brought 23.

Senator JORDAN of North Carolina. Not unless it brought 23 cents.

The CHAIRMAN. You know it could not if the price was lower than that.

Mr. RHODES. If I understood his proposal you could release up to that amount at that price.

The CHAIRMAN. If you could sell it.

Mr. RHODES. Yes.

The CHAIRMAN. Well, the idea was to do it that way. That is right: 1 million at 23 cents, another million at 23½, the other at 24, and then the rest—I mean 24½ cents, and the balance at 25 cents.

Mr. RHODES. That is correct.

The CHAIRMAN. But you interpret that to mean that unless the Government could obtain that price it could not be sold.

Mr. RHODES. That is correct.

The CHAIRMAN. Well, it would take a drought or calamity to sell that.

Mr. RHODES. Yes, sir.

The CHAIRMAN. Proceed.

Mr. RHODES. That is the end of my statement.

The CHAIRMAN. Very well. Any further questions?

Senator MILLER. I was just going to ask a question about page 8 where you talk about using this approach successfully in other programs, and then you list other programs such as wheat, feed grains, wool, and sugar. I am not too sure how successful this program has been in feed grains. Of course, it might depend upon what you measure your success by, but if you measure it by the success in the price for feed grains, to farmers, I do not think you will find a great enthusiasm about the improvement in price.

If you are going to measure it on the cost to the taxpayers, it is quite obvious it has not been very successful. It has gone up considerably. I was wondering what you meant by success in connection with those programs and whether or not it is possible that this approach might be successful with respect to cotton, especially when you have a surplus situation like we have here, and whether it might not be unsuccessful in some other commodity.

Mr. RHODES. Well, in my opinion the sugar program and the wool program have probably been the two most successful commodity programs.

The CHAIRMAN. Which ones?

Mr. RHODES. Wool and sugar.

The CHAIRMAN. That is because we are deficit producers. That is why the program works. They are not surpluses.

Mr. RHODES. And the second reason why I think payment programs have been successful is because they have resulted in great, as I understand it, a rather great reduction in the very heavy carryover stocks that we had a few years ago in the case of feed grains and corn.

I would like to say I am not an expert in these fields in any sense of the word. I am a cotton producer and I think I know considerable about cotton, but next to cotton I grow soybeans. Fortunately we have never gotten to a place yet where we had to get one of these programs on soybeans.

Senator JORDAN of North Carolina. They are working mighty hard on it.

Mr. RHODES. We have a loan of two and a quarter on soybeans and, fortunately, the price in the marketplace has to now stayed substantially above that level, and we have not used that loan to speak of.

Senator MILLER. I just want to say there are two viewpoints on this reduction of stocks in feed grains, but I think you will find that our increase in exports, which has been great, and our increase in domestic consumption, pretty well accounts for that. This is not to say that if we had no program things would have been the same way, but we are not talking about the difference between no program and some program. I think everybody is talking about a program.

But I would think that we would be on shaky ground to take the success in the wool and sugar programs as a yardstick for the possible success in this kind of a program.

As the chairman pointed out, we have a deficit in those items, but now the thing that bothers me about this, the first place, let me say I am very acutely aware of the need for being competitive on this export market.

I think it is a tragedy that we had a defect in this cotton bill which has enabled these foreign competitors to take what the Department sets at the beginning of the year and, as you put it, a stationary price, and use that to go around us. We are stuck with it for another year now. I think it is very important to get rid of that.

But whether the answer is to just come out with a direct payment, I am not sure yet. You heard Senator Anderson's testimony on his bill. Do you have any comments you would like to make on that?

Mr. RHODES. First, I would like, if I may, to say that I think it is equally important to be competitive in the domestic market. We certainly have to be competitive if we are going to export.

Senator MILLER. That is right.

Mr. RHODES. But if we are not competitive in the domestic market, we are going to lose two-thirds of the market to synthetic fibers, so you could argue it is even more important to be competitive in the domestic market than it is in the export market. The only way that I can see that you can be competitive is to let the markets operate and then make up the difference, whatever it may be, that the Congress

in its wisdom decides should be given to the producer, until he is able to grow cotton at a price that is competitive with other parts of the world.

Senator MILLER. However, the competition on the domestic market is not such a problem because the Secretary sets the payment price at the beginning of the year, as it is with respect to the export market.

Mr. RHODES. I agree with that. There is a technical difference there, but we have to stay competitive enough to keep these synthetic manmade fibers from taking over the entire market, and they have now reached the point where they have more than 50 percent of the total fiber market.

COTTON

With respect to Senator Anderson's statement, I would merely like to say that I worked under him many, many years. There is no man I have greater admiration for than Senator Anderson.

In this case I do not agree with him in his proposal that you can cut the price of a commodity 1 cent a year without disastrous results. I think if you cut the price of cotton 1 cent a year there is no mill in this country or no mill in a foreign country that will buy one bale more than they have to have because it is a known fact they are going to get it cheaper next year.

I think it is working in exactly the opposite direction we must go if we are going to get free markets.

The second thing, as I understood his proposal, we would be going back to a two-price system because he would reduce the subsidy on the domestic consumption of cotton at twice the rate that he is reducing the subsidy on cotton sold for export. We would have a two-price system again immediately, which is the worst possible thing, in my opinion, that could happen.

Senator MILLER. Do you think this could be feasible for a short-range period—say, 3 or 4 years—on account of the surpluses that we have?

Mr. RHODES. I do not, sir.

Senator MILLER. I have no further questions.

The CHAIRMAN. Any further questions? If not, I thank you.

I want the record to show that the costs to the government per year per bale of keeping cotton, that is, for storage and interest, amounts to about \$8 per bale and with 14 million bales, the costs to the Government would be \$112 million in round figures.

Mr. RHODES. That is correct.

Senator JORDAN of North Carolina. \$8 a bale.

The CHAIRMAN. Mr. Edward W. Cook was supposed to testify but I understand he is sick. He sent a statement which will be placed in the record at this point, and "A Free Cotton Market" will be filed with the committee. That is in connection with Mr. Cook's statement.

(The statement referred to follows:)

STATEMENT OF EDWARD W. COOK, COMMITTEE FOR A FREE COTTON MARKET, INC., MEMPHIS, TENN.

My name is Edward W. Cook. I am president of Cook & Co., Inc. of Memphis, Tenn. I am appearing here today on behalf of the Committee for a Free Cotton Market, Inc., of which I am a director.

The Committee for a Free Cotton Market, Inc., came into being early this year and it has over 2,000 members representing all segments of the cotton business, from producers to consumers.

I will make my statement very brief today. There has been distributed to you, as part of my statement, a pamphlet which was recently published by our committee and which sets out in, we hope, readable and graphic fashion, the story of cotton—the problems, the cause and the cure. I hope that members of this committee will find this pamphlet helpful in the course of their deliberations on cotton legislation.

In brief summary, this pamphlet points out the deteriorating situation in the cotton economy of the United States which reflects the loss of markets for American cotton at home and abroad. We point out that the loss of markets for cotton is due to one basic factor—the unrealistic pricing and marketing of cotton due to the type of Government program which has been in effect for so many years. The villain is the above-market loan which has drawn cotton into inventory instead of moving it into the marketplace to be priced and sold competitively with manmade fibers and foreign growths.

The solution which we develop in this pamphlet emerges clearly from the analysis—and, I might add, it is similar in major respects to that advanced by the Secretary of Agriculture before this committee. Cotton will not improve its position until and unless it is made competitive. This can only be done by letting the price-market mechanism work, free from price-fixing by Government fiat, thus permitting and encouraging cotton to move from the producer into the marketplace to the consumer. The solution is basically simple—eliminate the producer loan and maintain producer income through direct rather than indirect means, that is, through payments directly to producers.

Let me say with deep conviction and utmost sincerity that our proposal is not one that is inspired by partisan self-interest. We have been in the cotton business for a long time and we like to think that we are close students of the cotton economy. Our experience and study convince us of the truth of the following proposition: All segments of the cotton economy stand or fall together. Over time, there is no way that anyone in the cotton economy can survive unless American cotton prospers, that is to say, unless there is a ready market demand for American cotton on the part of consumers both domestic and foreign. This is an elementary truth and what we seek for cotton we believe is in the interest of all elements of the cotton economy.

Surely the producer cannot enjoy any prosperity or even a fair return for his labor and investment unless his cotton can be marketed. Of course, in the short run, the producer's income can be sustained through Government programs as his cotton moves into Government storage. But 30 years' experience has proven this to be self-defeating and untenable. Inventories build up, Government costs skyrocket and there emerges great pressure for reducing the cost of the Government program and for cutting back acreage. We see this pressure today and we will see it even more tomorrow if we don't come up with a sound program.

The American cotton textile mill is the principal consumer for American cotton. In the parlance of the military, the mills have "options"—they don't have to buy cotton; they can substitute manmade fibers as they already have. But the mills do have an interest in buying cotton at world market prices and at prices which are competitive with manmade fibers.

The American Government and the American taxpayer must clearly be considered as well. They are not willing—nor should they be willing—to continue a program that is costly and self-defeating. I am sure that they would be willing to bear the costs of a program which are necessary to maintain producers' incomes; but they have a right to expect that those costs produce beneficial results.

Among the benefits which the American Government and public can reasonably expect is that, through competitive cotton, we will be able to maintain and expand our dollar sales of cotton abroad. Certainly at a time when every effort is being made to improve the U.S. balance of payments, we can hardly forego the benefits to our balance of payments which would derive from the expansion of cotton exports. And we cannot expand cotton exports unless we let the market system operate and price cotton competitively so that foreign mills can exercise their "options" and choose American cotton in preference to foreign growths.

The export situation is particularly disturbing and our concern is compounded by the suggestion in some quarters that we can afford to forego the

export market. This is certainly the implication that one has to draw from the proposal that we maintain the present program or a variant of it. We are in close touch with the foreign market situation for American cotton and one clear conclusion emerges from our studies. It is that we alone are responsible for the deterioration in our export position. For, unlike the situation with respect to certain other agricultural exports which this committee is very familiar with, we are not faced with import restrictions on American cotton in Western Europe. If we have been losing out in sales to this most important dollar market it is entirely due to our own Government program which has priced American cotton out of that market and has made us the residual supplier to the world. As foreign growths continue to expand under the umbrella of price protection afforded by our Government programs, the very nature of our role as residual supplier indicates that our export sales will continue to decline. Unfortunately, unless it is stopped, a projection of present trends shows that we will lose our entire export market in less than a decade. Aside from all the other benefits that would flow from the kind of cotton program which we have proposed, the advantages to our export position alone would, we believe, be sufficient reason for the adoption of these proposals.

Mr. Chairman, I believe that this committee and this Congress have an unparalleled opportunity to enact legislation that can be the salvation of the cotton economy. We earnestly believe that the program we have suggested will accomplish these objectives:

- (1) Producers' incomes will be protected by direct payments.
- (2) Over the longer haul, expansion of markets for American cotton will stop the cutback in acreage and permit expansion of production, thus contributing to the improvement of producers' incomes.
- (3) Mills will continue to benefit from one-price cotton.
- (4) Costs to the taxpayer will be reduced significantly.
- (5) We will begin to reduce, instead of continuing to add to, Government stocks.
- (6) Exports will expand, thus contributing to an improvement in our balance of payments.

(NOTE.—The pamphlet referred to above is on file with the committee.)

The CHAIRMAN. Then a statement of Mr. R. W. Williamson, president of Dallas Cotton Exchange, will be placed in the record at this point.

(The statement referred to follows:)

STATEMENT FILED BY R. W. WILLIAMSON, PRESIDENT, DALLAS COTTON EXCHANGE, DALLAS, TEX.

All of you gentlemen on this committee know only too well the sad state of affairs in the cotton industry. Your task as U.S. Senators is to find a way to solve a problem which is the culmination of 30 years of effort to support and increase farm income. There can be no doubt that the last 30 years has resulted in stabilizing and increasing farm income; however, in the process something has been forgotten. Isolationism does not work any more in economics than it does in international politics. There are about 45 countries growing cotton besides the United States and these countries have no loan in which their cotton can stagnate and become a price depressant.

Thirty years ago the U.S. cotton crop was disposed of each year, or the carry-over, together with the current crop, controlled the plantings of U.S. farmers to the extent that large unmanageable amounts of cotton never accumulated. There was no loan in which the yearly carryover stagnated.

Although the loan system was instituted for the benefit of the American producer it has now become a menace to his very existence. If surpluses are not brought down to tolerable limits our farmers will be forced to curtail their acreage and production. (You will notice I said acreage and production. I will return to this shortly.)

There can be no doubt in anyone's mind that when the loan price is advertised to the cotton growing and consuming world, and when at the same time there is a large carryover in Government stocks, the loan becomes the ceiling price for sales, even though it is the American minimum price. This causes a static situation which all growers in foreign countries can and do undersell. It's like play-

ing stud poker with your opponent looking at your hole card. You won't win many hands.

You have heard many times that the United States has become the residual supplier of foreign countries—this is because these foreign countries know our price exactly and this one feature alone makes us the residual supplier. Given an even break, the United States can outsell and outproduce at a lower price any other country in the world. There is no reason why we should be the residual supplier. For over 100 years the United States has made the market for world cotton, American futures markets were the hedge medium for world cotton handlers and consumers. The high-priced loan fixed by edict has been and is the sole cause of our present situation.

You gentlemen have it in your power to eliminate this seemingly everlasting situation which was to have been a temporary expedient. It has been a temporary expedient entirely too long, and it will be a hard, long struggle for the United States to overcome the morass into which this high rigid loan has forced U.S. cotton industry. U.S. producers have become accustomed to protection and any program which does not give them adequate protection will be a betrayal of trust. A temporary (and I do mean temporary) equalization payment must be available to producers (not handlers or consumers). Producers are the sole beneficiaries of these equalization payments and they should receive them without fear of limitation. Large efficient growers face the same market conditions as the smaller ones. This should not result in unfair Federal discrimination against them.

In a speech before the National Cotton Council on January 30, 1962, Senator Eastland, a prominent member of your committee, stated that the farmer equalization payment could and should be diminished, as ways and means were achieved to cheapen the production of our U.S. cotton crop. Senator Eastland pointed out that there were many ways in which cost of production could be reduced. In fact, he totalled up from 12 to 15 cents per pound. These figures are certainly not outside the realms of possibility. In the present bill controlling the cotton industry of the United States (H.R. 6196), \$10 million were supposed to have been made available for this exact purpose. I have tried to find out whether or not, 18 months after passage of H.R. 6196, these funds have been allocated, and from information available to me it seems that only \$2½ million has been used. Can it be that these funds are being withheld intentionally because their use might increase our cotton abundance? Senator Eastland mentioned in his speech suggesting ways and means of reducing the cost of growing cotton that the skip-row planting would be one way to cut costs. Skip-row planting has been used by certain growers with excellent results—more cotton on less acres. How can you imagine these same farmers feel, who have used a simple method to cut costs, upon being told they should not practice skip-row planting because it increases production? What kind of nonsense is this? They have also been told they can produce as much cotton now on 14 million acres as they could on 16 million, 6 or 7 years ago. So what? Is this not an achievement to be complimented instead of criticized? If we were to enact legislation whereby cotton would sell instead of becoming a frozen doubtful asset such a ridiculous situation would never exist.

The way to revitalize our cotton industry lies in one word—price. There never has been a bale of cotton grown which would not sell at a price. Price will defeat our worst competition; namely, rayon both in the United States and in foreign countries. Price will discourage increases in foreign production. Price will eventually get rid of our burdensome Commodity Credit Corporation stocks. This magic word, "price," cannot be controlled by edict. It must be free to move with economic forces.

Therefore, gentlemen, on behalf not only of the merchants whom I represent but on behalf of our producers (without whom we merchants could not exist) I urge you in any legislation you consider, that you leave our U.S. cotton free to sell in competition throughout the world, and do not hamstring it with further high fixed price loans. Surely by this time you all realize the futility of such legislation.

Thank you for your consideration.

The CHAIRMAN. The next and last witness is Mr. Poteet.

STATEMENT OF H. A. POTEET, EXECUTIVE SECRETARY, AND IDRIS TRAYLOR, PRESIDENT, LUBBOCK COTTON EXCHANGE, LUBBOCK, TEX.

Mr. POTEET. Mr. Chairman and members of the committee, my name is H. A. Poteet. I am executive secretary of the Lubbock Cotton Exchange in Lubbock, Tex.

With me is Idris Traylor, president of the Lubbock Cotton Exchange and a cotton merchant in Lubbock and Harlingen, Tex. The Lubbock Cotton Exchange is an organization of cotton merchants in west Texas. We are presenting this statement on behalf of our members who provide a ready market to the area cotton producers and a service of delivering the approximate 2-million-bale annual area production of cotton from the farm to the consuming mills of the world. In the past few years, this area has produced nearly half the entire cotton production in the State of Texas.

Only 31 percent of the 1964 crop produced in our area has sold. The remaining 69 percent is still in the Government loan. This is typical of the last 3 crop years. This condition is responsible for the rapid deterioration of the producer's market.

The CHAIRMAN. Why is it that so much of your cotton goes into Government loan?

Mr. TRAYLOR. Mr. Chairman, may I answer that?

The CHAIRMAN. I wish you would.

Mr. TRAYLOR. We have a condition out there, Mr. Chairman, that they do not have anywhere else in the Cotton Belt. Our crop is late, and we have about 39 percent last year of our cotton was low micronaire cotton, if you know what I mean by low micronaire cotton, and that cotton we have also a group of so-called marketing associations, co-op pools, what have you, and they fight for this cotton.

Let me give you an example. If you have 50 bales of cotton, and part of that cotton, like 3.5 to 4.8, which is legitimate, my mill would take it. But you have the other 20 bales would be from 3.1, 3.0, 2.8, 2.9, that is worth \$7.50 a bale less actual value, well, they can go out there and get that cotton. We cannot put it in the loan, but the so-called pools or marketing associations can buy that from this man and, I say, at \$2 a bale or \$1 a bale over the loan, and he can buy the whole thing.

Then he can take this cotton that is worth \$7.50 under the loan, and put it into the government loan and sell the balance of it, and, naturally, all your low-grade cotton, and low-class cotton goes into the loan, and there it stays.

The CHAIRMAN. That is because of the staple.

Mr. TRAYLOR. No; it is micronaire; it is soft cotton.

The CHAIRMAN. That is the staple, that is what I am talking about.

Mr. TRAYLOR. It does not make any difference about how long it is, Senator.

The CHAIRMAN. But the production of cotton in that area is $\frac{7}{8}$, is it not, principally, and below?

Mr. TRAYLOR. No, about $\frac{15}{16}$.

The CHAIRMAN. $\frac{15}{16}$.

Mr. TRAYLOR. Yes, sir.

Senator JORDAN of North Carolina. Micronaire determines the diameter of the fiber, is not that correct?

Mr. TRAYLOR. Yes; the fineness, the strength of the cotton.

The CHAIRMAN. Sure. I know what you are talking about. Proceed.

Mr. POTEET. For the period beginning August 1, 1964, to the present time, exports are about 74 percent of what they were a year ago during this same period. It is true that the American mills have increased their consumption around 800,000 bales, but our exports are down 1,500,000 bales. Under the present program, if it follows the current trend, according to Frank Lowenstein, staff economist of the USDA this country will be out of the cotton exporting business by 1970. This trend must be reversed by meeting competition.

The present cotton program which went into effect over 14 months ago is not working successfully. In addition to decreasing cotton exports, it has increased government cotton stocks, brought on a reduction in the farmers income, and much added costs. We are told the present program will cost the Government around \$900 million this year and the Government stocks have risen to nearly an alltime high.

Government stocks as of August 1, 1961, were approximately 1,485,000 bales. This year our total carryover will be over 13 million bales and could reach 17 million bales or more by August 1, 1966 when the present program expires.

The producers' income is diminishing rapidly and they should be offered a positive program of expansion in order to maintain a fair income.

If we choose to sell on the world market, which we and most of the industry think is the best alternative, then the entire industry must reconcile itself that the price of our product is at the world level. Any program adopted should allow room for the markets to function and the price of American cotton left free to respond to world marketing mechanisms. To maintain the producer income, a direct payment over and above the world market price should, for maximum efficiency, be paid directly to the producer without limitations, or discrimination. This would allow us to expand our export markets by gaining our fair share of the expansion of world fiber consumption. With a direct subsidy as much as \$50 or even \$60 per bale to the farmer, the entire current crops would sell and the cost of this program would be much less than the present one.

With a market which is free to respond to supply and demand, the cotton trade over the world will begin to accumulate and hedge stocks of cotton. This will help restore a futures market which, as it gains strength, will begin filling of the pipelines through the channels of trade. As the trade fills these pipelines, we should begin to see a disappearance of portions of our surplus.

There should be a provision in any new program to insulate the surplus stocks from directly competing with current crop cotton and depressing the price to the grower.

Maintaining our present 16-million-acre minimum allotment is most necessary to protect farm and allied cotton industry investments.

It would be no trick for the merchants to export 6 or 7 million bales the first year and gradually restore some of our foreign markets, whereby we could eventually be exporting 8 or even 9 million bales

per year. With a competitive price we believe the foreign countries would stop expanding their production and the United States would capture a significant portion of increased markets as population and worldwide economic expansion develops.

For over 30 years all cotton programs have been patterned to increase the farmers' income with no apparent thought of the consequences. We believe the philosophy of maintaining the farmers' income is right and is still needed, but the methods to achieve this goal have brought about many of our present problems in cotton, and if continued could force the industry into assuming a minor role in our national economy. The high nonrecourse loan under present world market conditions is the same as a direct subsidy, but instead of providing for the sale it provides for a government purchase.

We have in effect been "posting" our prices to the world, including our competitors as well as our customers. This practice has provided an umbrella of protection to all other cotton-producing nations. We must stop telling the world what our price is going to be.

Nothing is comparable with cotton for producing foreign exchange and a favorable balance-of-payments position.

We emphasize that we must have a direct subsidy to the farmer without limitations or discrimination to launch a vigorous revival of the cotton industry.

A program embodying the above points will help assure that cotton will maintain its role as a major contributor to our area and national economy.

We thank you gentlemen for your attention to this presentation.

The CHAIRMAN. Anything further?

Senator JORDAN of North Carolina. Mr. Chairman, may I ask Mr. Poteet a question?

The CHAIRMAN. Certainly.

Senator JORDAN of North Carolina. Mr. Poteet, you were speaking about that micronaire cotton. Who did you say bought that and turned it and put it in the loans?

Mr. TRAYLOR. They have these marketing associations, so-called co-op pools, and we have so much of it, 39 percent of it, and we cannot, a merchant cannot, buy that cotton. They get out and buy it and pay over the loan for it, and then put it in the loan, the cotton they cannot use, that and overclassed cotton. That is the reason why 1,400,000, about 2 million bales, are in the Government loan in our area.

Senator JORDAN of North Carolina. Why can't you buy that cotton?

Mr. TRAYLOR. Because I cannot sell it.

Senator JORDAN of North Carolina. That is a good answer.

Senator RUSSELL of South Carolina. There is no use for it.

Mr. TRAYLOR. We have a market for it at the market, but they can pay well over the value of the cotton and then just stick it in a Government loan.

Senator JORDAN of North Carolina. Why does not the farmer who produces that put it in the Government loan himself to start with?

Mr. TRAYLOR. Well, they have these pools and they tell them "Well, we might get something back later on." That is the whole secret of it.

Senator JORDAN of North Carolina. In other words, they hold out to them—it is put in at a discount into the Government loan.

Mr. TRAYLOR. No, sir.

Senator JORDAN of North Carolina. It is not put in at a discount?

Mr. TRAYLOR. No, sir; it is not put in at a discount.

Senator JORDAN of North Carolina. He may get a little more than the loan later on. He may.

Mr. TRAYLOR. He may.

Senator JORDAN of North Carolina. He has nothing to lose. But that is the reason you have 13 million of stock, they may, but they are not getting it, too.

Senator RUSSELL of South Carolina. What is the use for this cotton?

Mr. TRAYLOR. Sir?

Senator RUSSELL of South Carolina. What is the use for this low-strength cotton?

Mr. TRAYLOR. Any mill can use it at a price, cheaper price. They can make cheaper goods for it.

Senator JORDAN of North Carolina. You have to blend it in with other cotton.

Mr. TRAYLOR. You have to blend it, but they can use it.

Senator JORDAN of North Carolina. You cannot spin it because it fuzzes up and it has no—we call it character.

Mr. TRAYLOR. That is what it is, really.

Senator JORDAN of North Carolina. It is just no strength. It is falling apart, just like fuzz on peaches.

Senator RUSSELL of South Carolina. It looks like it would be very expensive to use.

Mr. TRAYLOR. It is.

Senator RUSSELL of South Carolina. It does not seem to be economical.

Senator JORDAN of North Carolina. It is cheap, in cheap, course fabrics you can blend it in and get by with it.

The CHAIRMAN. What is the support price of this unusable value?

Mr. TRAYLOR. Loan value, same as micronaire 3.4, 3.5, 3.8; that is the reason that 800—

Senator RUSSELL of South Carolina. Suppose the loan price on normal grade or Middling cotton was 28 cents. What would be the price on this, the loan price on this?

Mr. TRAYLOR. What would be the loan price? If it is a 3.1 micronaire, you mean the same as the Middling?

Senator RUSSELL of South Carolina. You mean 28 cents?

Mr. TRAYLOR. Yes, sir; the same price. There is no discount.

Mr. POTEET. No discount for micronaire in Government loan.

Senator JORDAN of North Carolina. It should be a big discount, but there is not any.

Mr. TRAYLOR. There is for 1966 coming up. They are going to put it in the standards finally.

Senator JORDAN of North Carolina. A small discount.

Senator RUSSELL of South Carolina. What percentage of cotton in storage is represented by this type?

Mr. TRAYLOR. Well, 69 percent of our cotton out of this 2 million bales went into loan this year, and has been for 2 or 3 years.

Mr. POTEET. Thirty-nine percent.

Mr. TRAYLOR. We had 39 percent of that, which you can just figure it is about 800,000 bales from our territory. It is worth about \$7.50 a bale less than the regular cotton.

Senator MILLER. I would like to ask the gentleman two or three questions.

While we are trying to get rid of this surplus, how can we offer a positive program of expansion to our producers? It would seem to me if anything until that surplus is off our backs, we ought to try to reduce it rather than expand it, and at the very most maintain it.

Mr. POTEET. We feel like we have possibly two alternatives here of reducing ourselves to a minor crop and supplying the textile mills with only a few million bales per year or we can reduce our price drastically and move into and sell cotton and eventually be in position to expand our production and, possibly, by doing this sell it cheaper. This is what I mean.

Senator MILLER. You say eventually. In other words, holding out something here 3, 4, 5 years in the future by way of expansion if our exports and our domestic consumption go up. But in the meantime, while we are trying to get rid of this surplus, I trust you are not advocating that we try to increase our production.

Mr. POTEET. No, sir; I am not.

Mr. TRAYLOR. No, sir. It says right here maintain the present 16-million-acre minimum.

Senator MILLER. Yes. I wanted to make sure that those are reconciled.

Now, secondly, are you recommending to this committee that there be a subsidy of \$50 to \$60 per bale over and above the market price; world market price?

Mr. TRAYLOR. No; we are not, because we were putting it at a big—if it went to 17 cents, the world price, you could pay the \$50, \$60 a bale. They talk about a 29-cent base, and that is 12 cents a pound if it is done. Now, the cotton may bring 23 cents, we do not know, and we won't know until we can compete, and the world does not know what we are going to sell cotton for.

Senator MILLER. If I am a cotton farmer how am I going to know how much of a payment I am going to receive?

Mr. TRAYLOR. Well, you know when you sell that cotton.

Senator MILLER. Suppose I sell it for 21.

Mr. TRAYLOR. All right.

Senator MILLER. How am I going to know?

Mr. TRAYLOR. Well, you get the difference between 21 and 29 cents if that is what you based your cotton on, if that is the base you used.

Senator MILLER. But I am asking you what should be the base we should use?

Mr. TRAYLOR. Well, now, it does not make any difference. I think the farmer ought to get at least 29 cents. We are not recommending cutting the farmer's income at all.

Senator MILLER. Well, I appreciate that, but, at the same time, the committee, if they adopt this program, is going to have to write into the law whether it will be on a 29-cent base, does it not, Mr. Chairman?

Mr. TRAYLOR. That would be up to the committee.

Senator MILLER. Oh, yes. We want to find out what you people recommend. We have already had somebody testify here today they can grow cotton for 20 cents a pound, and somebody else has apparently told the chairman it takes 30 cents a pound.

Mr. TRAYLOR. I grant you different areas, out in west Texas, I think they would grow the cotton from 20 to 25 cents. Down in the Rio Grande Valley, where I have an office in the summertime, they cannot do it down there. It is just a different area.

Senator MILLER. In other words, we may, regardless of what price we set it, have a situation where somebody is going to get along all right and somebody else is going to get hurt.

Mr. POTEET. We feel that this is not the prerogative of the trade to say what the grower should receive for his product, and that is the reason we do not use a set figure that the grower should receive here.

The CHAIRMAN. What is the cost of production in your area?

Mr. POTEET. Sir, this is a figure that is hard to arrive at. However, the Extension Service has developed some figures for cost of production in our area. I do not have those figures with me, and they do not take into consideration capitalization of the land, but those figures are developed for three different type farming systems, dryland and semi-irrigation, and heavy irrigation, and the heavy irrigated production figured close to 18 cents a pound, and not taking into consideration the—

The CHAIRMAN. That covers all expenses?

Mr. POTEET. All expenses.

The CHAIRMAN. Salaries?

Mr. POTEET. But not the land.

The CHAIRMAN. And income?

Mr. POTEET. Land and management costs.

The CHAIRMAN. You mean the farmer would not receive anything for his work?

Mr. POTEET. Excluding those two points.

The CHAIRMAN. All right. 18.

Mr. POTEET. 17.8, if I recall correctly.

The CHAIRMAN. What is the other?

Mr. POTEET. Well, it ranges down to 14 cents on dry land production.

Senator JORDAN of North Carolina. What do you mean dry land production, you mean rain produced?

Mr. POTEET. Yes.

Mr. TRAYLOR. We do not have much of that.

Mr. POTEET. Let me emphasize this study did not include management or land costs.

Senator JORDAN of North Carolina. Well, your irrigation costs depend on whether you pump your water or whether you have—I mean from deep wells or from irrigation from ponds where you have low pumping.

Mr. TRAYLOR. Most of it is wells.

Senator JORDAN of North Carolina. I realize yours are, so is the San Joaquin Valley in California. As they go down 3,000 or 4,000 feet it takes a more high-powered motor to pull it up, and it costs much more.

Mr. KEMPNER. Senator, would you like to hear more about this cost of production, because it has persuaded me that I should volunteer this information? Maybe you will permit me to do so. This is a highly variable figure. We have some land, a substantial quantity of land, about 3,000 cotton acres in the Fort Bend County

Senator JORDAN of North Carolina. What State?

Mr. KEMPNER. Texas, and there they have compiled some very accurate figures, and when it rains at the right time, this is largely rain grown cotton, it costs between 11 and 12½ cents per pound there, bare costs; and when it does not rain the costs go up to 16 or 17 cents a pound.

If it does not rain at all the cost is whatever you put into it, but you have to remember this is no capitalization of the lands and no management fee, but the actual out-of-pocket costs on producing cotton in America, which have a tremendous range, and there is no figure that anybody can give you that is really significant, but I still say, as I said earlier, that there are producers in this country who can produce in competition with anybody else in the world. But in actual costs of production, of course, those fertile lands have built up an enormous market value, and if you take it at the present value, the cost goes very high, and if you take it at its value, if you cut the acreage to a domestic consumption basis, those land costs would fall very radically.

If this whole cotton program falls apart, as it might if these expenses in stocks continue, then it is not a question of the farmer's income, but it is a question of losing their whole patrimony because that land will drop enormously in value. But any time you get into costs of production you can be sure you get any number of opinions or any amount of information, all of which will be right in some place, but not universally so.

Senator MILLER. Mr. Chairman——

The CHAIRMAN. I am just thinking of what would be the results if we proceeded with compensatory payments. If the cost varies as much as you say it does, some would become millionaires and others would be paupers.

Mr. KEMPNER. Yes, sir; and that is just exactly what happens under the loan deal except under the loan deal you do not sell your cotton, and under compensatory payments you will. There is no way, I mean there is no—I do not suppose there is any interest on the part of the American system to deprive an individual who is in a fortunate situation and has particular skills or qualifications or equipment built up to deprive him of the fruits of this usufruct from these things and, at the same time, you cannot possibly adjust this thing so that the social problem is taken care of the same as the commercial farmer is. They are just two different problems.

The CHAIRMAN. All right, Senator Miller, you may proceed.

Senator MILLER. I wanted to follow along with the chairman's suggestion about some people possibly reaping a lot of profit out of this. It could work the other way possibly, and I appreciate the comments of the witnesses in this respect, that in competing for the world markets, those who have a low-cost base might be able to cut their price down, thereby lowering the world price, they might be able to get along quite well on that, but many other cotton farmers who would have to sell for that world price might find that because of the differential that is given here, and their higher costs that they might ultimately actually have to go out of business, so it could work both ways.

It could work where somebody will make a lot of money, and it could work where this person does not make a lot of money, but he makes it—

he breaks even in order to meet world competition; and the other person with the high costs would be forced out on this program, too.

Mr. KEMPNER. You see, sir, under the scheme we have advocated, the farmer would be independent, really, of the world costs, because he will be paid the difference between whatever the average price, as I explained to you, and the return price. You have to find a name for it.

The CHAIRMAN. Support price, that is what it is.

Mr. KEMPNER. That is what it is.

Senator MILLER. I understand. But the protection to this farmer may not be enough.

Mr. KEMPNER. That is correct.

Senator MILLER. And the protection to this farmer may be enough so he gets along quite well. In fact, it could work to the extent where he gets wealthy.

Mr. KEMPNER. Yes.

Senator MILLER. But this might end up going out of business.

Mr. KEMPNER. The same thing is true under any support price to farmers. There are people who ought not to be raising cotton.

Senator RUSSELL of South Carolina. That is the basis of our own free enterprise system. You have factories that make this much profit and some make none.

Mr. KEMPNER. Precisely. You have seen progress out of cotton growing, and the number of farmers who grow cotton and everything over the year, but this is part of the problem. There are people who cannot compete.

Senator MILLER. I do not think if anything is done along this line we ought to tease a lot of cotton farmers into thinking they are all going to get along fine, because if we have a direct payment program, I mean the testimony has been that they are going to be protected by this differential. Well, some of them may be protected and some of them may be out of business.

Mr. KEMPNER. No, sir. The testimony is their income will be protected at its level, and it is because that is where the farmers' income is now, it is based on a 29-cent loan. He puts his cotton into loan on a 29-cent average, regardless of whether it is going to cost him 30 cents or 20 cents to grow it, and to the extent that—to that extend and only to that extent, our program protects that income. He will be no worse off and no better off except that they will be relieved of the shadow of this whole program collapsing as the Government stocks increase every year.

The CHAIRMAN. In other words, what you are saying is under the support program that we now have, or this compensatory payment, they will take the same chances.

Mr. KEMPNER. That is correct, sir.

The CHAIRMAN. If he produces, if a farmer produces, more cotton than his neighbor, why, he will get more per acre.

Mr. KEMPNER. If he gets the rain at the right time——

The CHAIRMAN. The same thing applies to the great State of Iowa, where we have a support program for corn, and although where the average in Iowa may be 72 bushels per acre, you have some farmers who produce 100 bushels per acre and, of course, he benefits that much more because of the fact he produces more corn per acre than his neighbor.

Any further questions?

Senator JORDAN of North Carolina. May I ask this gentleman a question here?

You deal in cotton?

Mr. TRAYLOR. Yes, sir.

Senator JORDAN of North Carolina. Under this program——

Mr. TRAYLOR. Under this one you are talking about.

Senator JORDAN of North Carolina (continuing). Isn't there going to be a lot of cotton raised by farmers that they cannot sell to anybody? In other words, you could not go out and sell some of this dog fuzz cotton you have now.

Mr. TRAYLOR. Yes, we can, too; at a price we can sell it.

Senator JORDAN of North Carolina. You would not get 21 cents for it.

Mr. TRAYLOR. Well, we did not say we would get 21 cents, but every bale of cotton is merchantable.

Senator JORDAN of North Carolina. Well, I guess that is right.

Mr. TRAYLOR. At some price.

Senator JORDAN of North Carolina. At some price.

Mr. TRAYLOR. That is right.

Senator JORDAN of North Carolina. But that would stop the present practices of just putting any kind of stuff into Government loan or getting the same payment.

Mr. TRAYLOR. Of course, what you have in the Government loan is just like we were talking about, either overclassed cotton, cotton that has been overclassed, or low micronaire cotton.

Senator JORDAN of North Carolina. A lot of it is overclassed.

Senator MILLER. What you are getting it, Senator Jordan, or is what you are getting at some kind of a quality incentive such as was provided in the tobacco bill?

Senator JORDAN of North Carolina. It is present now, but when it gets down to a certain level, they all get the same price.

Mr. TRAYLOR. What I think what you asked me, I think, was this man who would have some sorry cotton, could he sell it?

Senator JORDAN of North Carolina. He would have to find a buyer for it.

Mr. TRAYLOR. There is a buyer for every bale of cotton.

Senator JORDAN of North Carolina. He would not get much for it.

Mr. TRAYLOR. Well, no.

The CHAIRMAN. Let me ask you this, Mr. Traylor.

Mr. TRAYLOR. Yes, sir.

The CHAIRMAN. I wonder if you could explain this to us. I do not know whether I misunderstood you or not, but a while ago you said that some cotton farmers or some cotton buyers would buy cotton at \$7 a bale below the loan base, and then——

Mr. TRAYLOR. Senator, you misunderstood me.

The CHAIRMAN. I wish you would correct my impression.

Mr. TRAYLOR. I have got a marketing pool which they have the privileges——

The CHAIRMAN. Who is "they"?

Mr. TRAYLOR. Not me; the merchants do not have it. This is a special group.

The CHAIRMAN. Cooperative.

Mr. TRAYLOR. Co-ops, and so-called marketing associations.

The CHAIRMAN. Yes.

Mr. TRAYLOR. They could put cotton in the loan. If I buy that list of cotton, I am stuck with those 20 bales. I can sell the 3.5 and better. Well, I could sell it all, but I have got a loss of \$7.50 a bale. Where those people can take that cotton and they could take their 3.5's, they, say, pay a dollar a bale over the loan for the whole thing, and the 3.5 and better is worth \$2 a bale. Well, they can go ahead and take those 30 bales and sell it and make \$60 whereas if they bought these 20 bales, they have \$7.5 a bale loss, I mean, I would, a merchant. But they can stick that cotton in the loan. It is a loan price just as big as they can at 3.5.

The CHAIRMAN. And the reason for it is that that cotton is still presumed to be in the hands of the farmer or the cooperative of which he is a member.

Mr. TRAYLOR. That is right.

The CHAIRMAN. I have it. I just want to clear the record.

Any further questions?

If not, the committee will stand in recess until 10 o'clock tomorrow.

(Whereupon, at 4:30 p.m. the committee adjourned to reconvene at 10 a.m. on Thursday, June 24, 1965.)

(Additional statement on cotton filed for the record is as follows:)

RESOLUTIONS ADOPTED BY THE 55TH ANNUAL CONVENTION OF THE SOUTH ATLANTIC AND GULF COAST DISTRICT OF THE INTERNATIONAL LONGSHOREMEN'S ASSOCIATION, AFL-CIO

RESOLUTION NO. 10 CONCURRED IN BY THE CONVENTION

Whereas the livelihood of many of our members and the whole economy of the areas in which they work is to a major degree dependent on the handling of baled cotton; and

Whereas the U.S. Department of Agriculture is pursuing a policy with respect to the storage of Government-owned cotton wherein such cotton is kept in the warehouse into which it entered the Government loan until such time as the warehouseman requests the Government to move it, although there is no legal requirement for such policy; and

Whereas testimony at hearings held by the Department of Agriculture brought out the fact that cotton storage space at concentration warehouses is available at savings of up to 28 cents per bale per month to the Government; and

Whereas expert testimony at said hearings estimated the savings to the Government at \$25 million; and

Whereas witnesses for organized labor testified at said hearings that this policy was costing their union members jobs; and

Whereas this is particularly and painfully true with respect to the members of the ILA: Therefore be it

Resolved, That the South Atlantic and Gulf Coast District of the ILA goes on record as urging the administration to instruct the Department of Agriculture to cease this policy which grossly discriminates against its members, at astronomical costs to the taxpayer; be it further

Resolved, That copies of this resolution be sent to the president of the International Longshoremen's Association with the request that Members of Congress and the administration be informed of our views, and urged to act in accordance therewith.

RESOLUTION NO. 11 CONCURRED IN BY THE CONVENTION

Whereas our own livelihood and the livelihood of the whole area in which we work is in a major degree dependent on sustained agricultural exports; and

Whereas the policy pursued by our Government in supporting the income of

the cotton farmers has priced American cotton out of the market and made it impossible for cotton to compete with synthetics and cotton grown in foreign countries; and

Whereas cotton is an important portion of the American exports above referred to and would be much more so if allowed to compete with other growths: Therefore be it

Resolved, That the South Atlantic and Gulf Coast District of the ILA goes on record as urging the administration and the Congress to enact cotton legislation which will free the price of American cotton from governmental restrictions so that it can meet competition in the marketplaces of the world; further, be it

Resolved, That the only way in which the price-market mechanism can be allowed to function and permit our cotton to sell is either to abolish the non-recourse loan or set a loan figure well below the world market for cotton; further, be it

Resolved, That we believe the farmers' income should be sustained and that this can be done by direct payments to the farmer to compensate him for the difference between the price at which they sell their cotton and a level of income predetermined by appropriate authorities; further, be it

Resolved, That copies of this resolution be sent to the president of the ILA with the request that Members of Congress and the Department of Agriculture be informed of our views, and urged to act in accordance therewith.

WASHINGTON, D.C., July 7, 1965.

Mr. HENRY J. CASSO,

Economist, Senate Agriculture and Forestry Committee, 324 Old Senate Office Building, Washington, D.C.

DEAR HENRY: In the analysis of the costs and benefits of the one-price cotton prepared by Dr. M. K. Horne, which was submitted for the record in connection with the council's testimony, there was an error on pages 25, 26, and 27. Although rather widespread distribution has been made of this analysis, we feel the printed record should be accurate.

We will, of course, have to take the blame for the error which appears in the mimeographed copies which have been distributed. Accordingly, it will be appreciated if you will see that the attached corrected pages 25, 26, and 27 are substituted for those in the copies of the analysis furnished the committee. We hate to bother you with this, but we think it is important that the material in the committee's record be accurate.

Best regards.

Sincerely,

J. BANKS YOUNG,
National Cotton Council of America.

FOOD AND AGRICULTURE ACT OF 1965

THURSDAY, JUNE 24, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 324, Old Senate Office Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender, Jordan of North Carolina, McGovern, Mondale, Russell of South Carolina, Aiken, Boggs, and Miller.

The CHAIRMAN. The committee will please come to order.

The first witness this morning is the Senator from Hawaii, Senator Inouye. You may proceed.

STATEMENT OF HON. DANIEL K. INOUE, A U.S. SENATOR FROM THE STATE OF HAWAII

Senator INOUE. Mr. Chairman and members of the committee, thank you for this opportunity to appear before this committee and to express my views on the omnibus agriculture bill, S. 1702, as well as on S. 2111.

I would like to stress, at the outset, that I am in agreement with the general objectives of S. 1702. I fully realize that one of the basic purposes of this bill is to reduce the level of Government-subsidized agricultural price supports in order to enable the rechanneling of funds saved to finance antipoverty projects aiding economically depressed farmers.

RICE

I am very much concerned, however, with the effect of the rice certificate proposals contained in S. 1702 and S. 2111 on consumers. I believe that the certificate plan will cause undue hardship to many of the citizens of my State, where rice is a staple in their daily diet.

Should the proposed legislation requiring millers to purchase domestic marketing certificates be passed, it is assumed that this additional cost will be passed on to the consumer. Government sources estimate that the retail price of rice will be increased by about 5 cents a pound—if not more.

Hawaii has one of the highest rates of rice consumption per capita in the United States. Our consuming public of nearly 600,000 persons pays about \$6,930,000 for the 60 million pounds of rice brought into the State annually. This does not include rice purchased by the military under contract from the millers, nor the sale of rice to military dependents through military outlets. Hence, the average civilian

per capita consumption of rice is slightly more than 100 pounds annually. Since a great many Caucasians seldom eat as much rice as the Oriental and Polynesian families, this average per capita figure is doubly significant.

Under the proposed rice certificate plan, with its 5-cent-a-pound increase in price, it is estimated that Hawaii's consumer expenditures for rice will go up to \$10,110,000. This is an increase of almost \$3.2 million over the present amount of expenditure—and a loss of \$3.2 million, as far as the State is concerned, since the funds could have been spent on other goods and services. This \$3.2 million total will, of course, constitute a severe drain on our limited economy.

Unfortunately, it appears that in the drafting of the rice certificate plan, little thought was given to its specific applicability to the Hawaiian situation. Also, it appears that insufficient analysis was made of the differing patterns in rice consumption throughout the United States. Support for title II of S. 1702, the sections dealing with rice, and support for a rice certificate plan in general, have been based on a national average consumption of 7 pounds per capita. This estimate does not give proper consideration to the fact that consumption exceeds 100 pounds not only in Hawaii but also in parts of New York and California, and in Puerto Rico.

The Agriculture Department has stated that the projected 5 cent-a-pound price increase, based on the national consumption average, will “mean very little” to the middle-income Hawaiian consumer and will affect only the “extremely low income” consumer. However, I would beg to differ. The increase will mean very much in the food budget of the average, as well as the low-income, Hawaiian consumer.

Let me illustrate my point. Many consumers in Hawaii buy rice in 10-pound bags. Each bag presently costs about \$1.27. As a result of either S. 1702 or S. 2111, the cost to the consumer will be increased by approximately 50 cents per 10-pound bag, or 39.4 percent. Even if the Agriculture Department's most optimistic estimate on the price increase—3 cents per pound—is taken, the cost to the consumer will still go up by 30 cents per 10-pound bag, or 23.6 percent.

On the basis of figures from both Government and industry, it may be estimated that a rice-eating family of five in Hawaii may consume as much as 800 pounds of rice a year. For this family, the increase in price—if there is a 5-cent-a-pound hike—would amount to almost \$40 a year. Such a sum will hit the pocketbooks of all rice consumers in Hawaii and will affect the lower income families proportionately more. Rice is a major portion of the daily menu of these low-income families in Hawaii, and a rice certificate plan would penalize these economically depressed families more than those who can afford a varied diet composed of expensive protein-rich foods and carbohydrates. Even medium-income families, despite the recent cut in excise taxes, will find much of their benefit from the tax reduction wiped away by the increase in the price of rice.

A 30- to 50-percent increase per 10-pound sack of rice would not be of much significance to the average consumer in Hoboken, Hackensack, or Harrisburg, but it means very much to the consumer in Honolulu.

Although, with regard to rice provisions, S. 2111 contains some improvements over S. 1702, such as the more gradual implementation of a certificate plan, it still proposes to transfer the burden of maintaining

the rice support program, which benefits all citizens, to a limited group of consumers. Thus, the effect of S. 2111 will be essentially the same as that of S. 1702.

It may be argued that such an increase in the cost of living is necessary in the national interest. But I object to the fact that the effect of this increase will be unequally felt in Hawaii. Hawaii and other rice-consuming areas of the Nation, such as California and Puerto Rico—which account for far more than 20 percent of the rice usage in this country—are, in effect, being asked to underwrite the proposal. This is especially unfair to Hawaii, where rice is very much a basic food and the demand for rice is highly inelastic.

The reasons for the inelasticity are threefold: consumer preference, the high cost of food substitutes, and ethnic backgrounds.

First, as to consumer preference; most of the people of Hawaii prefer cosmopolitan foods—Polynesian, Chinese, Japanese, Korean, and Filipino cuisine. These dishes are, however, often considered incomplete without servings of rice. This is a serious concern, since the appeal of such cosmopolitan foods is not limited exclusively to any specific ethnic group. Although orientals generally are the prime consumers of rice, other Hawaiian households are also more than average users of rice for these dishes. Just one indication of the widespread popularity of such dishes was revealed by a survey of consumer patterns in Honolulu in the year 1963. Covering 110 households selected randomly to insure a valid cross section, the poll showed that the average amount of rice the average housewife had on hand at the time of the interview was more than 10 pounds—a figure which probably could not be matched anywhere in the continental United States.

Furthermore, it should be noted that rice for the Hawaiian market is packaged in 5-, 10-, 25-, and 100-pound sacks. For mainland retail sales, rice is packaged in much smaller containers, 12-ounce, 1- and 3-pound packages. This is another indication of the relative importance of rice in dietary habits in Hawaii.

Second, on the matter of the high cost of substitutes for rice; agricultural products, such as wheat, other cereal grains, or potatoes, which are used as rice substitutes in other areas, are either not grown in Hawaii, or grown in very limited quantities. In the case of potatoes, usually thought of as a rice substitute, the latest available data show that only 215,000 pounds out of the 27.8 million consumed with the State of Hawaii in a year—an insignificant 0.8 percent—were produced locally. Contributing to the high retail price for potatoes are transportation costs. Seldom does the retail price for potatoes drop down toward that for rice.

Finally, the question of ethnic background of the Hawaiian population is important. Hawaii is proud of the various racial backgrounds represented by her people. The 1960 census revealed that over 50 percent of her population came from forebears immigrating from countries bordering the Pacific Ocean, particularly the Far East. The countries represented are predominantly rice-eating countries. The food patterns of immigrants from these countries are followed for many years, since eating habits are not readily modified.

Preference, high cost of food substitutes, and ethnic backgrounds are factors that are not easily influenced by any price change. Over a long period of time, there may be a tendency toward alteration in

eating habits. But it is this very inflexibility of demand which is of immediate concern to the economic well-being of Hawaii. As I noted earlier, the price increase for rice will mean a cash outflow of almost \$3.2 million annually, which the State can ill afford.

The State of Hawaii sincerely wishes to bear its fair share of financing Federal programs. But we feel that the levy should be equitable throughout the country. In the case of rice, we think that it will not be. The present proposals for a rice certificate program will require us to contribute far more than our share. I realize that this is not the intent of the legislation, but we cannot ignore the probable consequences.

In view of the hardship that would be wrought upon the people of Hawaii, and in view of the inadequacy of the present proposals in taking account of special factors affecting rice consumption, I must go on record against the rice provisions in S. 1702, and S. 2111.

The CHAIRMAN. Thank you very much, Senator. Have you any alternatives that would provide a fair income for the ricegrower, as well as a low price to the consumer with no increase in the burden to the taxpayers?

Senator INOUE. I do not, personally, have an alternative plan, but I have been advised that there are men who are sitting here who are involved in the rice industry who have come forth with some proposal which I feel may be of some significance to the committee.

The CHAIRMAN. But as you say, you are against title III, and you have a lot of company in that respect, I can assure you.

Senator INOUE. This is correct.

The CHAIRMAN. This committee is looking for alternatives.

Senator INOUE. I am sorry that I cannot be of any assistance in this area, sir.

I thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you.

Our next witness is Senator Fong. I know that you have a statement. We have quite a few witnesses today. I wonder if you could not highlight the statement.

Senator FONG. It is very short.

The CHAIRMAN. Very well, proceed.

STATEMENT OF HON. HIRAM L. FONG, A U.S. SENATOR FROM THE STATE OF HAWAII

Senator FONG. Mr. Chairman and members of the committee, I appreciate very much this opportunity to express my views on title III, the proposed rice certificate plan of S. 1702, now pending before you.

S. 1702 proposes to initiate a rice marketing certificate plan for 1966 and 1967. What is proposed for these 2 years is a processing tax on the milling of rough rice of approximately \$2.90 per hundredweight to be passed on to consumers. I strongly oppose this recommended processing tax because the price of milled rice, which now reflects a support price of \$4.50 per hundredweight on rough rice, would necessarily be advanced to \$5 per hundredweight for milled rice, f.o.b. mill. After reflecting ocean freight, normal commercial markup and State sales taxes, retail prices would be advanced in excess of 5 cents per pound.

Now, the administration indicates that this 5-cent boost would be reasonable in the total consumer food cost. This might be true if you consider 7 pounds per capita per year as the average domestic consumption of rice in the United States. On this per capita basis, it states that added food cost would be 35 cents per person per year for the average consumption—seemingly an insignificant rise. However, this situation actually does not prevail.

Careful examination of the rice proposal raises some doubt whether the administration contemplated the special impact upon consumers in certain geographical areas, upon low-income families, or in certain ethnic groups and their traditional food habits.

Hawaii, Puerto Rico, California, and New York City would be hardest hit. While the Nation's average is 7 pounds per capita, the per capita consumption in part of the South is also far above this figure. Many southern families with incomes of less than \$2,000 per year consume over five times as much as the national average. A 5-cent-per-pound increase on rice would cause hardship in Puerto Rico, where the average family is much larger and the per capita income is the lowest in the Nation. Per capita consumption is about 140 pounds per year in Puerto Rico. The average consumption in Hawaii is over 100 pounds per person annually.

A 25-pound paper bag currently is priced at \$2.79 at most supermarkets in Honolulu, but the proposed rice tax would add \$1.25 to it, for an increase of 5 cents per pound retail, or a total purchase price of \$4.04 per 25-pound bag. This, for a typical family of five, would be a heavy expense in the household food budget.

On the basis of 100 pounds per capita consumption, the annual price cost for a family of one would be between \$5 and \$6, and for an average family of five, it would be between \$25 and \$30. But the annual cost to the typical Hawaii plantation worker's and farmer's family of five (of whom there are about 30,000) would be between \$35 and \$50 because they consume between 700 to 1,000 pounds of rice annually. This means that each agricultural family of five eats about $2\frac{1}{3}$ pounds a day, or would spend an additional 12 cents a day on rice. This is more than 12 times the cost to the average family of five on a national basis, which is less than a cent a day, based on 7 pounds per capita, or 35 pounds a year for a family of five.

With a population of 700,000 and an average per capita consumption of over 100 pounds, the total annual consumption in Hawaii is over 65 million pounds. Thus, placing a rice tax of 5 cents a pound increase on the retail price would cost Hawaii consumers \$3 to \$4 million yearly in additional food costs. This would be not only an unreasonable and arbitrary tax on a staple food, but a serious drain in our island purchasing power. Hawaii's people already are paying higher prices for food, because about two-thirds of all food consumed is imported.

If this proposed rice price increase were shared by all Americans uniformly, the cost of the rice program might be justified. This, however, is not the case. The cost under S. 1702 would be unfairly loaded on those who use rice as a basic staple, especially those living in Hawaii, Puerto Rico, California, and New York City, and this appears to be most discriminatory.

I have received strong protests to the proposed rice certificate plan from the Third Legislature of the State of Hawaii and from the Coun-

cil of the City and County of Honolulu. I would appreciate very much the inclusion of these resolutions in the printed hearings.

The Rice Growers Association of California received over 30,000 signatures of protest from Hawaii consumers in a period of only 10 days, just prior to the rice hearings of the House Committee on Agriculture in May. The signatures could easily have gone upward to 60,000 or more if there had been more time. Consumers protest that the omnibus farm bill does not recognize the special impact of the certificate plan on Hawaii.

Mr. Chairman, I compliment you for your understanding and effort to improve some of the provisions of S. 1702 with the introduction of S. 2111 on June 9. Among the most important changes is graduating the increase in consumer costs over a period of 4 years. However, the bill still retains the principle of a processing tax payable by consumers, to which I am opposed. The bill also would still require Hawaii, Puerto Rico, California, and New York City, and other large rice-consuming areas to pay a disproportionate share of the cost of the rice-support program, which I believe to be completely inequitable.

The existing rice program has been successful and has maintained farm income while keeping retail prices at a reasonable level.

Under the present law, the Secretary of Agriculture has several administrative alternatives for cutting costs. These include reduction of price supports, reduction of Public Law 480 programing, and the boosting of dollar exports.

I strongly urge that the rice proposal in S. 1702 be rejected.

And I ask, Mr. Chairman, permission, that the resolutions I have previously referred to, one from the Third Legislature of the State of Hawaii, and the other from the Council of the City and County of Honolulu be made a part of the record at this point.

The CHAIRMAN. Without objection, they will be made a part of the record.

(The resolutions referred to follow:)

[S. Con. Res. 86]

THE THIRD LEGISLATURE OF THE STATE OF HAWAII—THE SENATE

CONCURRENT RESOLUTION Relating to requesting the U.S. Department of Agriculture to reconsider the rice price-support plan

Presented May 5, 1965, Sentaors Hebden Porteus, Fukushima, Miyake, Shiraishi, Yoshinaga, Hill, Takahashi, Kinney, Yates, Ariyoshi, Ansai, Fleming, Duarte, Kahanamoku, Doi, Fernandes, Hulten, Esposito, Abe, Trask, Kido.

Memo:

May 5, 1965, adopted (house).

May 5, 1965, final adoption (senate).

RESOLUTION

Whereas the people of the State of Hawaii consume the greatest amount of rice per capita in the United States; and

Whereas the rice which the people of Hawaii consume is grown on the mainland United States and any administration's price-support subsidy does not accrue to the benefit of Hawaii; and

Whereas the recently announced rice price-support plan of the U.S. Department of Agriculture would result in a 30-percent increase in the retail price of rice in the State of Hawaii; and

Whereas such a drastic increase in the price of rice would work a real hardship to the people of Hawaii, especially those in the lower income brackets: Now, therefore, be it

Resolved by the Senate of the Third Legislature of the State of Hawaii, general session of 1965 (the house of representatives concurring), That it hereby respectfully requests the U.S. Department of Agriculture to reconsider its rice price plan in order to correct its inequitable effect upon the people of Hawaii: And be it further

Resolved, That certified copies of this resolution be sent to the President of the United States, the U.S. Secretary of Agriculture, and to the Hawaii Senators and Representatives to the Congress of the United States.

THE SENATE OF THE STATE OF HAWAII,
Honolulu, Hawaii, May 5, 1965.

We hereby certify that the foregoing concurrent resolution was adopted by the Senate of the Third Legislature of the State of Hawaii, general session of 1965.

KAZUHISA ABE,
President of the Senate.
SEICHI HIRAI,
Clerk of the Senate.

THE HOUSE OF REPRESENTATIVES OF THE STATE OF HAWAII,
Honolulu, Hawaii, May 5, 1965.

We hereby certify that the foregoing concurrent resolution was adopted by the House of Representatives of the Third Legislature of the State of Hawaii, general session of 1965.

ELMER F. CRAVALHA,
Speaker, House of Representatives.
SHIGETA KANEMOTO,
Clerk, House of Representatives.

[S. Res. 86]

SENATE RESOLUTION REQUESTING THE DEPARTMENT OF SOCIAL SERVICES TO REVIEW THEIR POLICY WITH RESPECT TO THE REDUCTION OF THE AMOUNT OF PUBLIC ASSISTANCE BY THE INCOME OF A RECIPIENT

Whereas section 108-36, Revised Laws of Hawaii 1955, authorizes the department of social services to determine the amount of public assistance; and

Whereas it is understood that the department of social services has established a policy, including the reduction of public assistance to a recipient by an amount equal to that earned by a recipient; and

Whereas a recipient would, of necessity, incur expenses in the course of employment he would not otherwise incur unemployed; and

Whereas public assistance is not subject to but earnings may be subject to income taxes, thereby reducing net receipts; and

Whereas any loss in net income to an employed recipient would offer little if no incentive to remain employed, if not to deter unemployed recipients to seek employment: Now, therefore, be it

Resolved by the Senate of the Third Legislature of the State of Hawaii, General Session of 1965, That the department of social services be and is hereby requested to study their policy with respect to the reduction of public assistance by the income of the recipient and submit the results of such study by the 50th day of this session; and be it further

Resolved, That a certified copy of this resolution be transmitted to the director of social services.

(Signed by Nelson K. Doi and 15 other members.)

RESOLUTION No. 129

Whereas rice is the one single major staple food of the islands of the State of Hawaii; and

Whereas the State of Hawaii is the largest rice-consuming State of the United States; and

Whereas the omnibus farm bill now before the U.S. Congress proposes to raise the price of rice \$.07 per capita consumption rate in the United States; and

Whereas this price increase, because of the high rate of consumption in the Islands of Hawaii, will mean an approximate price increase of 33 percent to the average rice consumer ; and

Whereas this approximate 33 percent price increase of rice will become a burden on the low-income family wage earner whose major staple food is rice ; and

Whereas to low-income families this 33 percent (approximate) can mean up to \$20 or more in increased rice costs per year ; and

Whereas this 33-percent (approximate) price increase will mean up to \$3 million of added burden on the economy of Hawaii ; and

Whereas it is fitting and just that the people of Hawaii protect themselves against a bill which does not take into account Hawaii's disproportionate consumption of rice as a staple food as proposed in the omnibus farm bill : Now, therefore, be it

Resolved by the Council of the City and County of Honolulu, State of Hawaii, That strong opposition be and it is, hereby expressed to the rice price increase as proposed in the omnibus bill now before the Congress of the United States, as being discriminatory to the people of Hawaii ; and be it further

Resolved, That the city clerk be, and she is, hereby directed to transmit copies of this resolution, expressing council's opposition to the proposed rice price increase, to the President of the United States, to the majority leader of the United States Senate, to the Speaker of the United States House of Representatives, to Hawaii's congressional delegation, to the chairman of the Agricultural Committees of both the Senate and House of Representatives, to the Governor of the State of Hawaii, to the President of the Senate of the State Legislature and to the Speaker of the House of the State Legislature.

Introduced by :

FRANK F. FASI.
KEKOA D. KAAPU.
EUGENE F. KENNEDY.
MATSUO TAKABUKI.
CLESSON Y. CHIKASUYE.
GEORGE KOGA.
HERMAN G. P. LEMKE.

Date of introduction :

HONOLULU, HAWAII, *April 13, 1965.*

CITY COUNCIL,
City and County of Hawaii.

I hereby certify that the foregoing resolution was adopted by the council of the city and county of Honolulu on April 13, 1965.

HERMAN G. P. LEMKE,
Chairman and Presiding Officer.
EILEEN K. LOTA,
City Clerk.

Dated this 13th day of April 1965.

The CHAIRMAN. As you know, Senator Fong, many of us favor the present law, but it is being so administered now that it is cutting deep into the income of those who are producing the rice, and that is what I am personally concerned with. I am glad that you do not favor title III. And you have a lot of company in that respect, I can assure you.

Senator FONG. Thank you.

The CHAIRMAN. But the only thing is that we have got to find some way, some alternative, so that the farmer will get his fair share and that the taxpayer will not pay as much or more than he should. That is the problem that we have to wrestle with. And we are very glad to have had your testimony.

Senator FONG. Thank you.

The CHAIRMAN. Our next witness is Mr. George B. Blair. Will you identify yourself for the record ?

Mr. BLAIR. Yes, sir. My name is George B. Blair, and I am general manager of the American Rice Growers Cooperative Association. Senator, there are several of the officers of our Association present here with me.

The CHAIRMAN. Please call them up.

Mr. BLAIR. Very well, and if permissible, I would like to identify them, and if they have a short statement to make, to have permission for them to do so.

The CHAIRMAN. Let them come forward all of them.

Mr. BLAIR. First is Mr. D. R. Wintermann, president of the American Rice Growers Cooperative Association of Eagle Lake, Tex. Next is Mr. H. G. Chalkley, who is vice president of the American Rice Growers Cooperative Association of Lake Charles, La. Next is Mr. A. S. Denison, who is president of the Katy Division of the American Rice Growers Cooperative Association. Next is Mr. W. P. Cardiff, who is a director of the American Rice Growers Cooperative Association of Katy, Tex. Next is Mr. Kermit Dyche, of Alvin, Tex., who is a member of the association.

The CHAIRMAN. All right. You may proceed.

Mr. BLAIR. And, Mr. Chairman, we also have here from the Mississippi Rice Marketing Association, Mr. Mouton, who is the president and general manager, and Mr. Harold Lyons, who have also asked to be associated with this statement.

The CHAIRMAN. You may proceed.

STATEMENT OF GEORGE B. BLAIR, GENERAL MANAGER, AMERICAN RICE GROWERS COOPERATIVE ASSOCIATION, LAKE CHARLES, LA.

Mr. BLAIR. Mr. Chairman, and gentlemen of the committee, as stated, my name is George B. Blair. I am general manager of American Rice Growers Association with headquarters at Lake Charles, La. American Rice Growers Cooperative Association is a federation of 21 farmer owned local marketing cooperative associations in Louisiana and Texas with some 2,000 rice producer members. These associations market some 60 percent of the Texas rice production and a lesser percentage of the Louisiana crop.

We sincerely appreciate the opportunity to appear before you today to give you our views with respect to the proposed legislation regarding rice.

We hope that our presentation is going to be a realistic objective analysis of what we find in the bills.

I believe it is generally conceded that the rice industry of the United States has had one of the finest working relationships with the U.S. Department of Agriculture and other governmental agencies over a period of the last 15 or 20 years that has existed.

We, certainly, have no quarrel with the people in the Department of Agriculture. We think they are dedicated personnel, doing a good job in the positions that they occupy.

To recount just a bit of history, after world rice prices dropped in 1954 the U.S. industry found suddenly that it was priced out of the world market and as a result there were heavy accumulations of rice for the ensuing 2 years in Commodity Credit Corporation hands. Acreage allotments and marketing quotas were imposed in 1955 with the U.S. industry taking a cut in acreage of about 38 percent and with some States taking larger cuts than that, based on history, and individual producers taking acreage cuts of more than 50 percent

as controls were imposed. Shortly after these happenings the U.S. lost Cuba as its principal rice export market.

Despite these happenings all elements of the U.S. industry have worked hard to correct the troubles which faced us and for the past several years we have found practically no rice going into Commodity Credit stocks. About 70 to 75 percent of our total production is moving for dollars in domestic and export markets and rice is moving to over 100 different countries in the world in the last few years.

Rice has been pointed to a number of times in recent years as one in which the legislation for orderly marketing and control of production had worked admirably from the standpoint of Government.

In fact, it was somewhat of a shock to the industry to suddenly be pointed to as one having a program that was completely unsatisfactory and that had to be changed completely and immediately.

The industry has worked hard and spent millions of its own dollars over the period of the last 15 years to develop the domestic market and, as a result, rice is the only carbohydrate food in the United States which is showing a steady growth in both total consumption and per capita consumption. Many persons in the rice industry have spent long days and weeks working to develop foreign outlets for U.S. rice and the result shows in the dollar exports of the crop to the many countries of the world.

You can understand our chagrin, then, at having legislation proposed and sent to Congress on which the industry had no opportunity to comment or work with the administration in an attempt to point out the difficulties and to develop a workable solution for the objectives set forth by the administration.

The industry requested, on more than one occasion, an opportunity to sit down with the administration and go over the proposed legislation. The request was denied.

We also sought to determine what would be in the legislation or to secure drafts of the legislation through the House Agriculture Committee and the Senate Committee on Agriculture and Forestry. It is our understanding that neither the House nor Senate committees were consulted with respect to the proposed legislation and, hence, there was no opportunity for a review of the proposal by the industry prior to its introduction in Congress.

The rice industry was told that it was because of the very expensive costs of the rice price-support program that new legislation needed to be devised.

I am sure that you have seen the figures put out by the administration to the effect that the total cost of the rice price-support program was about \$180 million per year representing some \$7,900 per farm as compared with much smaller amounts for other commodities and representing about half of the gross value of the crop.

I would point out to this committee that these figures apparently were developed for the express purpose of trying to force the adoption of some such legislation as has been proposed.

First, I would point out to the committee that, with some exceptions in the fringe areas, rice is the major crop grown in the rice-producing area. In general, it is a one-crop economy. The exceptions are the small acreage in the Mississippi Delta, some acreage in the eastern fringe of the Arkansas producing-area and a small acre-

age in the western fringe of the Texas area. This means that the total resources of the rice producer are devoted to rice farming and consequently the total production costs, on a per farm or a per acreage allotment basis, is expected to be greater.

On the other hand, we find feed grains generally grown throughout the areas in which wheat and cotton is grown with diversified farms generally engaged in the production of at least two of the items and many times of all three of these commodities.

Yet the administration, in proposing the figures to compare with cost of rice production, breaks down the individual items on a per commodity basis instead of on a per farm basis. I would also call to your attention that there is no minimum allotment provision in the case of rice as there is, for instance, in the case of wheat, where, as I understand it, there are more than 1 million farms with less than the minimum allotment and which help to reduce the total cost per allotment on the basis of this type of calculation.

Another basic difference is that wheat is farmed on one farm unit by a single operator. In rice, in Texas and Louisiana, it is not unusual to find many independent operators on one farm, using land on the farm for a cash rent or share-of-crop payment.

As examples, from my personal knowledge, there is 1 farm in Calcasieu Parish, La., with 39 farmers producing a total of 6,400 acres of rice, another in Jefferson County, Tex., with 40 producers and 8,000 acres of rice, another in Jackson County, Tex., with 15 producers farming 5,000 acres, another in Wharton County, Tex., with 10 producers farming 3,500 acres of rice, and so forth. One of the members of USDA's Rice Advisory Committee from California farms on a ranch with 36 other rice producers. This is not an unusual pattern in our rice industry but these are extreme examples.

We also find that we are in very substantial disagreement with the bookkeeping procedures used to justify this type of program.

The figures presented, as I have seen them, are purported to be the USDA costs of supporting the 1964 crop of rice. Actually, they are calculations of a total cost to the U.S. Government during the fiscal year 1964 and, with one very minor exception, involved a complete writeoff of all of the activities with respect to rice in which the U.S. Government engaged.

The one small exception is a gain of \$200,000 in fiscal year 1964 on rice taken over by Commodity Credit Corporation and then resold.

We do not have access to all of the figures nor the basis of charges attributed to the rice program but I would point out that the so-called price-support operation of Commodity Credit Corporation for 1964 includes about \$2.5 million worth of milled rice which went to the school lunch program and about \$11.3 million worth which was used for donations by the U.S. Government under various welfare programs.

Substantially all of this rice was bought in the open market on a competitive bid basis and with the U.S. Government sometimes taking action to deliberately force down the entire market in order to acquire the small quantity they wanted at a price which was satisfactory to them.

Also included in this item is a storage and handling expense of \$900,000. We have no way of knowing what should constitute this

item but, on the basis of the 1964 takeover of 771,000 hundredweight, this figures about \$1.17 per hundredweight. In our part of the country, we can get rice stored and handled for a full crop year for about 30 cents per hundredweight. Another \$600,000 under price supports is charged for transportation. Certainly this is not the cost of moving the 771,000 hundredweights of rough rice taken over by Commodity Credit Corporation so, presumably, it must be substantially the cost of transporting the rice which was given away to welfare programs and for school lunch purposes.

The figures which have been handed about show a cost to the rice program under Public Law 480 as \$126 million.

First, we think it is manifestly unfair to charge the rice industry with the cost of foreign economic development programs which are a standard part of the U.S. diplomatic arsenal of weapons. No one in government denies that one of the principal reasons for having an acreage allotment 10 percent in excess of the minimum is in order to supply the rice needed for our foreign commitments, yet, we find the gross value of these commitments charged against the American rice farmer.

Not only is the export subsidy on this rice charged against the rice farmer but also the total cost of the rice acquisition, including milling, exporter fees and profits, and the ocean transportation to the recipient country including the added freight cost as a result of shipping of 50 percent of the sales in American bottoms as a subsidy to the American merchant marine.

Even further than this, there is added into this cost the total value of the rice and transportation which was sold under title IV of Public Law 480 on credit sales for U.S. dollars on which repayment with interest is guaranteed.

Then after adding all of these costs in, the total gross amount is charged off as a cost against the rice price support program regardless of uses made of the funds by the U.S. Government or recoveries of the amounts involved. In some of the more recent Public Law 480 sales, I understand, as much as 50 percent of the total amounts of the funds have been earmarked for unrestricted U.S. uses.

The industry cannot quarrel with the fact that the export subsidy payment on the dollar sales is a direct benefit and result of price support and disposal operations and this \$38.8 million plus a reasonable charge for handling and storage of approximately 1 percent of the crop taken over by Commodity Credit Corporation means that the total actual costs which should legitimately be charged to the rice farmer as a result of rice support operations is only about 20 percent of the purported cost shown by the figures which have been handed out. Even if export subsidies on foreign currency sales are added, the cost is only one-third.

The CHAIRMAN. In that connection, I wonder if you could furnish for the record the cost, taking into consideration all of the facts and the figures that you have been giving out? You do not have to do it now, but I think that it would be appropriate to put that in the record at this point. Because the economists of our committee did find quite a difference in the total amount charged to the rice program, as you have, but they have not put together the figures to show the actual charge that should be made. And as you pointed out, the

rice farmers of this country were asked to plant more rice in order to make rice available to people in Asia. And, personally, I did not think that the rice program should ever be charged with that, but it has been done the way you mentioned. I would like to have that separate for the record, so that the readers of this record will find the figures submitted by the Department are not accurate.

Mr. BLAIR. Senator, I will be very happy to prepare and supply those figures immediately.

The CHAIRMAN. And you might work with our economists.

Mr. BLAIR. All right.

(The information follows:)

Allocation of Commodity Credit Corporation expenditures for rice,
fiscal year 1964

[In millions of dollars]

	Farm price support operations and related costs	Domestic welfare and assistance programs	Foreign eco- nomic ¹ aid, developent and assistance programs
Gain on sales.....	² \$0.2		
Cost of commodities donated (sec. 416) (including 250,000 hundredweight to school lunch).....		\$13.8	
Storage and handling expense (771,000 hundredweight de- livered April 1964).....		.9	
Transportation expense.....		.6	
Commodity export payments (dollar exports).....	³ 38.8		
Public Law 480 program costs:			
Title I:			
Commodity cost.....	³ 30.0		\$77.0
Ocean transportation.....			8.6
Title IV:			
Commodity cost.....	³ 2.9		⁴ (6.8)
Ocean transportation.....			⁴ (.5)
Total.....	71.7	15.3	85.6

¹ Amounts of foreign currencies for unrestricted use by U.S. Government not available.
² Denotes net gain on sales.
³ Commodity export payments.
⁴ Repayment to United States in dollars, including interest and ocean transportation guaranteed by commercial financial institutions.

The CHAIRMAN. What I want is a true picture.

Mr. BLAIR. Yes, sir.

I believe I can best illustrate the point I am trying to make by pointing out that if there was no price-support program for rice and it all moved at world market prices, we would still have over \$100,000 charged to rice price-support programs.

We have heard the allegation made repeatedly that price-support operations for rice are the most expensive of any commodity.

Again, the old saying that you can prove anything with figures is true here.

We have already pointed to the difference in the way farms are constituted in the rice areas as compared to our principal competitive product—wheat.

I would call your attention to the costs of the wheat price-support operations, not as a defense of costs for rice, but as an example of what realistic and objective figures will show.

On page 6 there is a table No. I which I think is self-explanatory. I would point out that the principal figures of imports are the last three figures at the bottom of the table in which we set forth on a per

bushel basis the cost of the rice price-support program for 1964 which was \$1.10 per bushel. And the same figures, from the Commodity Credit Corporation sources for wheat in 1964, were \$1.61 per bushel. There is a difference in the weight of a bushel of wheat and a bushel of rice. If you put it on a hundredweight basis of the cost the price-support program was \$2.48 and the wheat price-support program was \$2.68 per hundredweight. In terms of the value of the crop in 1964, the rice price-support program costs were 49.91 percent and the wheat price-support program was 86.70 percent.

I would emphasize, however, that all rice costs are based on a milled, ready-to-eat, food products while wheat costs are substantially for the raw product.

As indicated earlier, the industry had no opportunity to work with the administration in development of the subject legislation and it was not until after the legislation was introduced in April and copies became available in Congress that we had time to sit down and try to analyze the possible effects of the bill.

(Table I follows:)

TABLE I.—Commodity Credit Corporation price support program cost for wheat and rice, 1963-64

	Rice	Wheat
Production:		
Harvested acres (acres) ¹	1, 785, 600	45, 209, 000
Production (bushels) ¹	162, 473, 000	1, 142, 013, 000
Value of crop ²	\$360, 000, 000	\$2, 115, 776, 000
Program costs: ³		
Price support costs.....	\$15, 100, 000	\$239, 444, 640
International Wheat Agreement.....		\$124, 937, 717
Direct payments.....		\$193, 819, 442
Commodity export payments.....	\$38, 800, 000	
Public Law 480.....	\$125, 800, 000	\$1, 276, 307, 840
Total.....	\$179, 700, 000	\$1, 834, 509, 639
Value of production—dollars per acre.....	\$201. 61	\$46. 80
Price support progrm costs—per acre.....	\$100. 64	\$40. 58
Price support program costs:		
Dollars per bushel.....	\$1. 10	\$1. 61
Dollars per hundredweight.....	\$2. 48	\$2. 68
As percent of value of crop.....	49. 91	86. 70

¹ Crop production, 1964 annual summary, USDA, SRS, December 1964.
² Value of production, 1963 and 1964, USDA, SRS, December 1964.
³ CCC Report of Financial Conditions and Operations, USDA.

Mr. BLAIR. I believe it is pertinent to analysis of this legislation to point out that our association is not opposed to certificate programs, per se. As many of you, and especially the esteemed chairman of this committee, know, our association was a strong supporter of such a proposal in 1956 when this Senate committee twice adopted such a plan.

Circumstances have changed drastically in the intervening 9 years. In summary, in table II is about the situation—then and now.

I will point to certain figures in table II.

At that time, in 1956-57 crop year, the domestic consumption, as a percent of our total production was about 52 percent and today it is about 40 percent. At that time our exports were about 48 percent of our total production and today they are about 57 percent of our total production.

At that time our primary market, as a percentage of the total production, was about 61 percent and today that is about 37 percent.

In 1956-57, the level of support expressed in terms of dollars, was \$4.57 as compared with today when it is \$4.50.

In terms of parity in 1956-57, it was 82.5 percent, as compared with today of about 68 percent.

The world prime market price at that time was about \$3.21 or 58 percent of parity and at the present time it is about \$3.30, or about 49.8 percent of parity.

The price increase in this primary market, as a result of this type of a program, in 1956-57 would have been about 97 cents per hundredweight of rough rice, \$1.38 per hundredweight of milled rice, or about 9 percent, and today it would be about \$2.12 per hundredweight of rough rice, or \$3.02 per hundredweight of milled rice, or about 47 percent price increase.

The blended average support price, which a producer would have received in 1956-57, would have been about \$4.37 which at that time represented 76 percent of parity and today it would be about \$4.53, representing about 68 percent of parity.

(Table II follows:)

TABLE II.—*Comparison of the general rice situation in 1956 and 1965 re proposed certificate plans*

	1956-57	1964-65
U.S rice acreage (acres).....	1, 571, 000	1, 786, 400
U.S. rice production (hundredweights).....	49, 459, 000	73, 113, 000
Domestic consumption (hundredweights).....	25, 658, 000	29, 500, 000
Domestic consumption (percent of production).....	51. 88	40. 34
Exports (hundredweights).....	23, 801, 000	41, 500, 000
Exports (percent of production).....	48. 12	56. 76
Primary market ¹ (hundredweights).....	30, 139, 000	27, 400, 000
Primary market ¹ (percent of production).....	60. 93	37. 48
Support level.....	\$4. 57	\$4. 50
Support level (percent of parity).....	82. 50	67. 97
Primary market support level.....	\$4. 99	\$6. 62
Primary market support level (percent of parity).....	90. 00	100. 00
World market price (dollars per hundredweight).....	\$3. 21	\$3. 30
World market price (percent of parity).....	58. 00	49. 80
Price increase to primary market, rough rice (dollars per hundredweight)....	\$0. 97	\$2. 12
Price increase to primary market, rough rice (percent).....	9. 20	47. 10
Price increase to primary market, milled rice (dollars per hundredweight)....	\$1. 38	\$3. 02
Price increase to primary market, milled rice (percent).....	9. 00	47. 10
Blended average support price (dollars per hundredweight).....	\$4. 37	\$4. 53
Blended average support price (percent of parity).....	76. 00	68. 40

¹ Included Cuba.

Mr. BLAIR. You will note the differences indicated but table II does not show another most important factor—that cost of production has increased from the \$80 to \$100 per acre range to \$125 to \$165 per acre while the support price is \$0.07 per hundredweight lower than it was 9 years ago.

The past weeks have been busy ones as we have tried to analyze the implications of the proposed legislation, its possible results and get our rice farmers acquainted with the contents so that they may be able to make some kind of a decision with respect to the legislation.

Any study of the proposed legislation in S. 1702 is made much more difficult by the wide discretionary authority granted throughout title III to the Secretary of Agriculture. Many assumptions must be made as to what action the Secretary would make, some of them contradic-

tory, and each of them affecting the resulting analysis. So much must be assumed that it is almost an impossible task to tell which direction this legislation would lead, and what its results would be in terms of income to the rice producer.

This legislation is proposed to be effective for a 2-year period after which the price support operations for rice would revert to present legislation. Obviously, it is not intended that such a drastic revision of rice price support operations should terminate after only 2 years and there would be requests forthcoming to reenact and continue the legislation.

Under the proposed bill, the present legislation providing for a minimum national acreage allotment of 1.6 million acres and the legislation providing for distribution of that allotment to the States would be repealed. Substituted would be a "minimum production goal" of 60 million hundredweight which, when divided by a projected national average yield, would provide a national acreage allotment.

According to our calculations, and depending on the method used for projecting a national average yield 2 years in the future, this would mean a minimum national acreage allotment of 1.4 to 1.3 million acres. The larger figure would result if we used a method of simply adding in the last 2 years for weight and dropping the oldest year to arrive at a projection 2 years in the future. The smaller figure would result if we use the percentage of average increase in production, by States, as a basis for projecting average yields. At any rate, the result could be an additional acreage cut for the rice producer in the range of 25 to 28 percent from present acreage and would mean that the allotted acreage would be about half what it was before the institution of acreage allotments and marketing quotas.

We have no way of knowing what determination the Secretary would make with respect to distributing the reduced acreage allotment to the States and to counties and farms or to producers.

If each State's allotment is determined on the basis of production, as is the national allotment, there can be a very substantial shift of acreage between States which would result in some States taking another exceptionally large cut in acreage. For instance, Louisiana's share of the present national acreage allotment is about 28 percent. Its share of the national production is about 23 percent. If the national acreage allotment is distributed to States on the basis of production this will mean that Louisiana will take an acreage cut, under the minimum acreage assumption, of about 40 percent and that its acreage allotment would be only about 46 percent of the acreage which was being planted in Louisiana before the application of marketing quotas.

Any kind of acreage cut would work an extreme hardship on producers in many States but the acreage allotment cuts possible under this proposed legislation and its application to the States would be completely disastrous if our reasoning is anywhere near correct.

We have serious reservations as to whether this proposed legislation will increase either total or net income of rice producers, especially as related to parity. There is a good likelihood that farm income from rice production will be substantially decreased.

We have strong reservations with respect to the wide discretionary authority which is granted to the Secretary of Agriculture in the proposed legislation and believe that the bill, as presented, would subject

any administrative officer to budgetary and other pressures which he would find impossible to resist and which would, at the same time, drastically change the proposed benefits of the program to producers.

In trying to analyze the effects of the bill, about the best we can do is take the extremes of what we think could happen and use them as examples.

USDA estimates that the gross income for the price crop for 1965 will be about \$360 million, about the same as last year with a support cut of 21 cents per hundredweight but anticipating a continuation of the increase in yields, with a gross value of \$200 per acre.

Under this legislation, according to our calculations, taking a projected average yield in 1966 of 4,268 pounds on the present 1.8 million acres, a domestic market support price of 100 percent of parity, anticipating no decrease in the domestic market consumption, and assuming a loan value of \$3.60 per hundredweight, slightly above the world market price, the gross income to rice producers would be \$363.7 million. This is the very best that could happen under the proposed legislation and would represent a gross income per acre of about \$202.05.

The worst that could happen under the present legislation is that the support level could be set at the minimum of 65 percent of parity and the acreage could be cut to the statutory minimum of 1.6 million. This would result in a crop with a total value of about \$295 million representing about \$184 per acre or about \$18 per acre below the gross returns for the most favorable application of this proposed legislation.

In other words, under the very most favorable application of the proposed legislation the rice farmer would have only about \$18 per acres more gross return than he would under the very most unfavorable application of the present statutes.

If we assume that the Secretary would not cut the acreage and that there was no loss in domestic consumption but that the domestic market was supported at the minimum permitted by this legislation, we are looking at a total gross reduction of rice income of \$60 million and per acre reduction in income of \$33 per acre below that of the present program.

If we assumed that there would be no effect on the domestic market but that the Secretary reduced the acreage to the minimum permissible under the proposed legislation and supported the domestic market at the minimum proposed this would represent a reduction in gross income of \$121 million from the present program and a reduction of about \$86 per acre on an acreage reduced by 400,000 acres.

S. 2111 would remove most of the major elements of such wide discretionary authority and would set a minimum national acreage allotment, its method for distribution to States, a fixed domestic market support level, and a fixed minimum support value.

We are also seriously concerned about the effects of the proposed price increase on domestic market consumption and, of course, the domestic market consumption is the factor which determines the percentage of certificates which a producer will receive and consequently what his average or "blended" price will be from his total production.

Senator JORDAN of North Carolina. How do you arrive at that blend price—what do you use?

Mr. BLAIR. This says, sir, that the portion of the rice going into the domestic market would be supported at a high level, perhaps at 100 percent of parity. That portion which was exported, whether it was for dollars or under Public Law 480 would move about at the world price. And what we refer to as an average price or a blend price is simply an average price of the 35 to 40 percent supported at a high level into the domestic market and the 65 or 70 percent of it moving into the world market at about the world market price.

Senator JORDAN of North Carolina. In other words, you are talking about a blended price?

Mr. BLAIR. Yes, sir; this is a blend of the price, and not of the total supply.

Senator MONDALE. Mr. Blair, are you planning to propose an alternative to the administration program as embodied in the legislation before this committee, or are you essentially arguing for a continuation of the existing program?

Mr. BLAIR. We are not proposing new legislation. We are proposing to say that the legislation as presented by the administration will have such a disastrous effect that we believe that it cannot be accepted and we would ask the committee to turn it down, and give the industry and the Department of Agriculture through its Advisory Committee an opportunity to sit down and try to work out a program which the industry can live with and which will be acceptable and will accomplish the objectives of the administration.

Senator MONDALE. You see, one of the problems, at least that I have as a member of this committee, is the apparent cost of the rice program as compared to all of the other programs.

According to the figures which I have received, I think, which came from the Department of Agriculture, the rice program costs an average of \$12,400 per farm, or a per acre average of \$101, as compared on the average to our wheat program of \$1,109. I do not have the acre cost there. And our cotton program of \$628 per farm, and our feed grain program for \$436 per farm, or \$11 per acre. If these figures are correct, that indicates that the rice program per farm basis is more costly to the Government in the magnitude of tenfold to elevenfold. And, as compared to the feed grain acreage, about tenfold per acre. The phenomenal increase in the production of rice which we have experienced is continuing to drive these costs up. I am not antifarmer or an antifarm program. I believe that if it were not for Federal farm programs that the difficult farm situation would become disastrous, but the administration has tried to propose a program which they think will improve the farmer's income, will cut the costs of the budget \$40 to \$60 million, and to do something to avert what might be a very serious crisis in the rice farm program.

I gather from your testimony that you do not like the U.S. Department of Agriculture's proposal. Do you have an alternative that you could suggest to reduce the farm costs, perhaps reduce the Government costs, and improve or sustain the farm income?

Mr. BLAIR. I think, sir, that we face this situation: the administration has proposed a program—with which we find ourselves in strong disagreement.

Senator MONDALE. I am asking what you favor.

Mr. BLAIR. We favor having an opportunity to sit down with the Department and to work out a program. We have told the people in the Department very frankly this. We think that if we sat down and worked out a program that it would have many elements that would be unacceptable to the Department of Agriculture. They have proposed a program which the industry thinks has many elements that are unacceptable. The Department finds itself committed to the proposal that they have set forth.

We do sit down and talk with them and they are glad to see us, but they want to talk about the program which we have over here. So long as this legislation is before this committee, and the House committee, we find ourselves at a stalemate in trying to develop legislation which would be acceptable to the Department of Agriculture and to the industry.

Senator MONDALE. Unfortunately, the members of this committee have to vote on a commodity bill some time this summer.

Mr. BLAIR. We have to acknowledge that.

Senator MONDALE. And I understand that some of these matters have been studied so long that no one is alive to remember when it was done.

Mr. BLAIR. We do not propose that.

Senator MONDALE. Well, I did not mean it in that way. I understand that this committee, as I see it, is going to have to decide what kind of a program we want. If we do not do anything in effect we are approving the program that exists. The administration has presented this proposal. And if you have some other proposal to reduce the Government costs, to sustain or to improve the farm income, I would like to know about it.

Mr. BLAIR. The Government has indicated to us, sir, that we—that it would be an amount of some \$25 to \$80 million as the amount that they wanted to remove from the so-called rice support costs. The figure that most recently has been kicked around is about \$50 million. We have said to the people in the Department of Agriculture and are saying to this committee that if the Department of Agriculture is convinced that this must be done, that, then it can be done under present legislation, and we hope that there will be an opportunity, because of the impact that this approach would take, for producers to sit down with them and try to work out some new approaches for proposed legislation which would accomplish this same \$50 million reduction, that we can get under present legislation, but without the impact on the producers that it would have.

Senator MONDALE. There was one thing that I liked about your testimony. I like the general criticism that the farm budget charges the farmers with everything. He is charged for the school lunch programs, the Public Law 480 program. I would like to see an analysis of those costs that are fairly chargeable to the farmers so that the rice farmer or the wheat farmer or the corn farmer, as Senator Aiken said yesterday, as he phrased it, some scientist will discover that the moon is made of green cheese and the space program will be charged to the farmers, too. [Laughter.]

Mr. BLAIR. I hope that will not happen, but with the accounting system that is being used—and, of course, the industry, whether it is the wheat industry, the rice industry, or anything else, nothing to

say about how much the program for Public Law 480 will be changed to the farmer, whether it is sold for dollars or whether it is sold for foreign currency, or how much goes into the school lunch program.

I liken it to a man and a wife having a joint checking account in which the man writes the checks, and then he berates his wife for having overspent the checking account. This is maybe somewhat the same kind of a situation that we are in here. But the facts are that this is the way that the books are kept, and these are the figures, that you have before you. I have no way of determining the accuracy of the feed grain, cotton, and other program figures. I think that there is a significant difference in terms of the commodities. These figures that you have that have been provided by the Department with respect to the feed grains or with respect to cotton or with respect to wheat would change significantly if they were all added together on a per farmer basis, because many cotton farmers, also, produce feed grains and many wheat farms, also, produce feed grains, et cetera, but it so happens that it is convenient, in the case of rice, to put it on a per farm basis, because, generally, rice is about the only commodity grown on that farm where rice is grown. In other cases, if you break it down by commodities it makes a substantial difference. Aside from the fact that the value of the commodity produced and its cost of production is substantially different in the case of rice as against wheat and other commodities.

The CHAIRMAN. May I pipe in a little bit? I want to say to my good friend from Minnesota that in my efforts to restore the price of rice to \$4.71, which was the case last year, I was presented with the figures that the distinguished Senator has just submitted. I had our accountants look over them. And we have here a lot of farms that are considered as single unit, but, as a matter of fact, you may have as many as 15 or 40 tenants on 1 farm, but it is still counted as 1 farm. If all that were taken into consideration, which I hope will be done before these hearings are completed, it will show the exact significance of the figures that were presented to us by the Department. I hope that can be done before the hearings are completed.

Senator MONDALE. I agree with you.

Senator JORDAN of North Carolina. It is unrealistic to report this by farms, is it not?

The CHAIRMAN. Especially where our agricultural production has been for the benefit of a lot of southeast Asians who needed rice. The acreage has increased. There was more production needed in order to assist these people abroad. And all of us know that for quite some time the consumption of rice in this country has been on the increase, but because of the increase in production we are now consuming only about 40 percent of our production, whereas the rest of it is sold abroad. In fact, I would say that over one-half of that 60 percent is given away to these people in southeast Asia. And all of that is charged to the rice program.

Senator JORDAN of North Carolina. A friend of mine wanted me to see his ranch in California some years ago. I had always thought that a ranch was a good-sized piece of land requiring an automobile to cover it in a day. He had 2 acres in his ranch. So it was not of tremendous size.

The CHAIRMAN. Another fact, as was pointed out and should be taken into consideration, is the number of farms that grow wheat, that grow cotton. We have many of them in Louisiana. And those that grow rice and that grow different commodities. But they are considered only one farm in one instance, and they cannot be considered three farms. And if all of that were analyzed it is my considered judgment that the price per farm or per acre or per bushel, or whatever measure you want to take, or per hundredweight, that the difference between rice and these other commodities would not be far apart.

Senator MONDALE. Mr. Chairman, I think much could be gained by this type of impartial analysis of the farm program to find out the actual cost that the farmer is loaded with because of Public Law 480 and the school lunch programs. I think that much could be gained by having these figures.

The CHAIRMAN. I agree with that. And as Mr. Blair knows, the rice industry was not consulted. When the bill was drafted nobody knew anything about it. I got it, and I introduced it by request. I was against it from its inception, because I did not think that it was fair to the rice farmers.

As Mr. Blair pointed out, it not only decreased the acreage, but the price support, when you blend the price received for the domestic consumption and that received on the world markets.

I have put in a bill of my own, but I am not wedded to it. I put it in simply for the purpose of discussion. I am very hopeful that we can come up with a bill that will give the rice farmers, at least, what they received last year, not less than that. We are trying to do that for all segments of our farm society. Whether we will succeed or not, I do not know, but we will make the effort.

Please proceed, Mr. Blair.

Mr. BLAIR. May I say to the Senator, with respect to sending this to a committee for further study, that this is not a delaying tactic on our part. As recently as yesterday afternoon some of us met with people in the Department of Agriculture and said to them:

You have a rice advisory committee. It would not be proper to bypass it. Any time after Friday, starting with Saturday morning, why do you not call them together, and let us sit down and get this problem worked out and see if we can get some legislation that we can live with?

It is, certainly, not our intention to try to stall the thing off, because we know that if we do not get the legislation they propose or something in place of it that we are in trouble as producers, and producer representatives.

USDA estimates that the application of the proposed program will result in an increase of 4 to 6 cents per pound of milled rice. I have also heard Department people estimate that the probable maximum effect on the domestic market will be a reduction of consumption by 1 million hundredweights and that this will be only temporary.

We have also heard it suggested that this kind of price increase amounts to only 30 cents per person and will not be significant in the market.

We cannot agree with these theses and apparently the Department is ignoring its own published studies in this regard.

This seems somewhat like reasoning that we can raise the price of Ford automobiles from \$3,000 to \$5,000 per car and it will not affect car sales because it only amounts to \$27 per person or \$83 per car owner in the United States.

We do not know how the Department arrives at its estimate of 4 to 6 cents per pound as the value they will place on processors' certificates but we must assume that this is the result of some deliberation and study in the Department.

This kind of increase represents an increase of 40 to 70 percent in the f.o.b. milled price of milled rice.

In the only published study by USDA that the industry is aware of, published as House Document No. 100 on March 2, 1955, page 12, is the following:

Based on data since 1935, a coefficient of elasticity of domestic demand for rice for food in continental United States of 0.05 was determined; that is, it was found that, on the average, and other factors being equal, a decline of 2 percent in price to growers was associated with an increase of 1 percent in continental per capita food consumption * * *. In the analysis which appears in a later section of this report, domestic territorial disappearance which includes brewers, seed and feed use, as well as food use is assumed to have a demand elasticity of about 0.03.

A 4 to 6 cents per pound increase in the cost of milled rice means a 40 to 70 percent increase in the cost of milled rice, f.o.b. the mill.

USDA's study is correct, this would indicate a reduction in domestic consumption of 20 to 35 percent as a result of this kind of increase in price.

We are fearful that this kind of a study is more than likely to be correct. We know, for instance, that the brewing industry, which accounts for about 14 percent of our present domestic consumption, cannot stand any kind of additional price increase or the market will be completely lost.

We estimate that we might easily lose half of the market going to reproprocessors (cereal manufacturers, canners, baby foods, etc.) and the 3 million hundredweights going to this market, accounting for about 10 percent of our domestic market, would mean a total of about 19 percent loss of market in these two items.

Direct food use in the United States and Puerto Rico accounts for about 68 percent of our total domestic consumption and if we have any appreciable effect on this market as a result of such drastic price increases, then we are faced with a loss of between 20 and 30 percent of our domestic market and consequently, a reduction of 20 to 30 percent in the amount of certificates which the producer will get. This simply means that the proportion of his crop which will be supported at domestic market prices, whatever they may be, will be reduced by this amount and instead of having 60 to 65 percent of his crop moving at world market prices he will have 70 to 80 percent. This assumed, of course, production at about the present level.

A substantial part of our increase in domestic consumption is as a result of new food used by what we call "reprocessors"—additional processing for food use. Ten years ago, we could carry all of the items containing rice, excluding packaged rice, out of a supermarket in our hands. Today, I doubt if you could carry one of each out in a grocery cart.

Listed below are some of the items I purchased in a supermarket last week. They do not include all of such food products nor such items as pet foods, confectionary items, candies, and so forth. You will recognize some immediately. Others, I think will surprise you.

<i>Product</i>	<i>Manufacturer</i>
Puffed Rice-----	Quaker Oats Co., Chicago, Ill.
Rice Krispies-----	Kellogg Co., Battle Creek, Mich.
Rice Krinkles-----	General Foods, Post Division, White Plains, N.Y.
Chicken and Rice Soup-----	H. J. Heinz, Pittsburgh, Pa.
Old Fashioned Tomato Rice Soup-----	Campbell Soup Co., Camden, N.J.
Brown Beauty Spanish Rice----	Columbia Foods, Benton Harbor, Mich.
Yellow Rice Dinner-----	R. M. Quigg, Miami, Fla.
Uncle Bens Curried Rice-----	Uncle Bens, Inc., Houston, Tex.
Betty Crocker Rice Minalesse----	General Mills, Inc., Minneapolis, Minn.
Minute Spanish Rice Mix-----	General Foods, Post Division, White Plains, N.Y.
Chicken Rice Soup Mix-----	Thos. J. Lipton, Inc., Hoboken, N.J.
Spanish Rice and Beef-----	Libby, McNeill & Libby, Chicago, Ill.
Spanish Yellow Rice Dinner----	Dixie Lily Milling Co., Tampa, Fla.
Knorr's Garden Vegetable Soup-----	Best Foods Division, Corn Products Co., New York.
Tasty Soup Mix-----	Ranco Foods, Memphis, Tenn.
Rice-a-Roni-----	Golden Grain Macaroni Co., San Leandro, Calif.
Special K-----	Kellogg Co., Battle Creek, Mich.
Team Flakes-----	National Biscuit Co., New York City
Country Corn Flakes-----	General Mills, Minneapolis, Minn.
Buttermilk Biscuits-----	Pillsbury Co., Minneapolis, Minn.
Country Style Biscuits-----	Do.
Aunt Jemima Pancake Mix-----	Quaker Oats Co., Chicago, Ill.
Hungry Jack Pancake Mix-----	Pillsbury Co., Minneapolis, Minn.
Chicken Soup (baby food)-----	H.J. Heinz, Pittsburgh, Pa.
Custard Pudding (baby food)---	Do.
Vegdale and Bacon (baby food)-----	Gerber Products Co., Fremont, Mich.
Cream of Chicken Soup (baby food)-----	Do.
Dietetic Crisp Rice (dietetic)---	Van Brode Milling Co., Clinton, Mass.
Rice Wafers (dietetic)-----	Hol-Grain Products, Seattle, Wash.
Rice Cereal for Baby (baby food)-----	Gerber Products Co., Fremont, Mich.
Dr. Jackson Meal (dietetic)----	Dr. Jackson Foods, Ltd., Toronto, Canada.

Puffed Rice and Rice Krispies are standard products that you ordinarily associate with rice. On page 13, sir, there are some others that I suspect that most of you do not know were rice products, such as Kellogg's "Special K," National Biscuit Co.'s "Team Flakes," General Mills' "Country Corn Flakes," Pillsbury's "Buttermilk Biscuits," and "Country Style Biscuits" and Quaker Oat's, "Aunt Jemima Pancake Mix" and Pillsbury's "Hungry Jack Pancake Mix" plus many baby foods and dietetic foods, etc.

The manufacturers are keenly aware of raw material costs and we are fearful of the impact of a sudden artificial price increase of the magnitude we are discussing.

S. 2111 would lessen the abruptness of the price increase by making four successive upward steps toward the 100 percent of parity domestic market price. We believe this is a desirable approach.

Our concern, however, is that a permanent setback or loss in the domestic market immediately reflects itself in less certificates and a lower average or blended price to the producer.

Thus a 10-percent loss in a 100 percent of parity domestic market would mean a blended price of 66 percent of parity to the producer and a 20-percent loss would leave him with a 62 percent of parity blended price and 82.5 percent of his production to go to export markets.

One of the contradictory, but very realistic assumptions that we must make about S. 1702 or S. 2111 is that the Secretary of Agriculture might determine, as he has indicated he would, that production should be maintained at about the present level.

I believe that a substantial number of producers, particularly in Louisiana, would voluntarily cut production substantially under a certificate program.

Average yield in Louisiana is about 3,200 pounds. At a \$3.60 support level, this represents a gross return of \$115 per acre.

Cost of production in Louisiana and Texas are in the \$130 to \$160 per acre range.

It would not take a rice producer, and his banker, very long to conclude that average or blended price has no significance if it simply means taking \$15 to \$45 per acre of profit from the 37.5 percent going to the domestic market to cover the loss on each acre of the 62.5 percent at world market prices.

I would expect that in a very short time, rice acreage in southwest Louisiana would drop to half of today's acreage.

I will not try to guess what the effect would be in 13 parishes substantially built on a rice economy.

The critical point, however, is again producer's income.

If farmers voluntarily underplanted by 25 percent because they cannot afford to produce at world market prices and the Secretary wants to maintain production he must increase acreage by about 25 percent.

The producer's percentage share of certificates then drops from 37.5 to 28 percent, his income is lowered, and this cycle would repeat itself.

We could continue to belabor the possible effects of this proposed legislation on the producer and his income but, as pointed out earlier, the wide discretion given to the Secretary of Agriculture makes it almost impossible to determine a result if it is enacted into law.

We have very real fears of this legislation. Our fears are in terms of what it will do to the income of individual rice farmers and the related industries in rice production.

We are also made fearful by the fact that we are aware of the administration's success in getting legislation through Congress without substantial change and the refusal of the administration to sit down and talk about the problems of the rice industry and attempt to work them out to the mutual benefit and satisfaction of all concerned.

We would very earnestly urge this committee to recommend the removal of title III and other related portions affecting rice legislation from the Senate bill and leave the rice program effective as it is today.

We recognize that, under present legislation, price supports can be lowered to 65 percent of parity and acreage can be cut back to 1.6 million. Disastrous as this would be, we believe that this is preferable to the uncertainties and the possible disastrous consequences of the enactment and implementation of the legislation now before this committee.

This would result in a reduction of cost to the Government of about \$56 million.

Senator RUSSELL of South Carolina. Your alternative is the objective of the administration to reduce the cost by \$50 million, is it not—at least that is the practical approach that you offer.

Mr. BLAIR. Yes, sir; this is the approach, unless we can induce the people to sit down and work out something that will have a lesser effect.

The CHAIRMAN. What effect would that have on the rice producer, let us say, in Louisiana, where you know more about it than in Arkansas?

Mr. BLAIR. It would be very rough, sir.

The CHAIRMAN. Do you think that the small farmer who rents, who gives a fifth for water and a fifth to the landowner, and has three-fifths himself, could survive?

Mr. BLAIR. Some of them could not, sir, unless they are able to increase their production. As you well know, this 21-cent cut, particularly in Louisiana this year, because of the lower yields, hit particularly hard here, more than any other State, those farmers. Another reduction would have the same effect.

The CHAIRMAN. And maybe worse?

Mr. BLAIR. Perhaps worse; yes, sir.

Senator JORDAN of North Carolina. What was the cause of the reduction this past year?

Mr. BLAIR. As I understand it, sir, it was to reduce the costs and to make additional funds available for poverty and aid to Appalachia within a \$100 million budget.

Senator JORDAN of North Carolina. You are talking about the Federal budget?

Mr. BLAIR. I am talking about the cut of rice price.

The CHAIRMAN. Of the program.

Senator RUSSELL of South Carolina. The support price?

Mr. BLAIR. The support price of rice in the current crop.

The CHAIRMAN. It was cut from \$4.71 average to \$4.50—the support price was cut, on the average, that amount. Of course I did all that I could to restore it, but to no avail.

Mr. BLAIR. We are aware of that, Senator.

The CHAIRMAN. And there is no doubt but that it will bring hardship to quite a few farmers, not only in Louisiana but all over the rice area. I express the hope that the committee will be furnished enough facts so that we can prepare a bill of our own or, in the alternative, we will have to remain with what we have. We will have to take the law as it is, and let it go on until we can get together. I dislike to see that, because if the Department does not cut back the acreage from 1,800,000 to 1,600,000 and then cuts the support price from \$4.50 to \$4.21 it is bound to hurt and it will not be in accord with the President's idea of increasing the income of the farmer. It will drastically cut his income.

Senator JORDAN of North Carolina. What is rice bringing on the market wholesale now per hundred pounds?

Mr. BLAIR. It depends, sir, on the grade and the variety of rice. I would suspect that to the wholesaler for a long-grain type of rice an average of around \$9.75 to \$10.75. There are men here who are much more qualified to answer that than I am.

Senator JORDAN of North Carolina. About generally 11 cents a pound?

Mr. BLAIR. Yes.

Senator JORDAN of North Carolina. And the support price, of course, is \$4.70?

The CHAIRMAN. An average of \$4.71. There is a differential between the long grain and the short grain rice. The long grain price is \$9.20, I think, and the short is what?

Senator JORDAN of North Carolina. What is the average size; that is, the average size of a rice field? I understand that you have to keep these flooded sometimes but you cannot flood 100 acres.

Mr. BLAIR. Yes, sir, we do, and considerably more than that.

Senator JORDAN of North Carolina. All in one piece?

Mr. BLAIR. Under controlled conditions. It is known as controlled irrigation. A typical field might be from 50 to 150 or 200 acres and sometimes larger.

Senator JORDAN of North Carolina. In one piece?

Mr. BLAIR. In one piece, yes, sir. This means, of course, that you must put little levees or terraces through it in order to keep the water from accumulating at one end but all of it is grown under irrigation to a controlled depth.

Senator JORDAN of North Carolina. I knew that they used irrigation but I did not think that you could hem up your water in such a big place.

STATEMENT OF H. G. CHALKLEY, VICE PRESIDENT, AMERICAN RICE GROWERS ASSOCIATION, LAKE CHARLES, LA.

Mr. CHALKLEY. I might say that the fields are laid out on the basis of the variation in the elevation of from one-tenth to one and one-half tenths of a foot. I am from Louisiana. The fields vary from, approximately, 40 acres up to 600 acres in one field. Of course, there are many levees or terraces as we call them in each one of these fields.

Senator JORDAN of North Carolina. That is what I am talking about. I have seen them down through the Arkansas area when I used to drive from Memphis to Hot Springs, to go down there to get boiled out.

The CHAIRMAN. You do not drink as much poison as you did in the past.

Senator JORDAN of North Carolina. I do not know. [Laughter.]

It looked to me like it was 2 or 3 acres in size, and there would be little levees.

Mr. CHALKLEY. We do not call that a field. That is set off by itself. The water is let down from the higher elevation down through there. It goes down by gravity.

Senator JORDAN of North Carolina. But that is just a part of the field?

Mr. CHALKLEY. That is correct, sir.

Senator JORDAN of North Carolina. That is what I wanted to know, whether you would have one field of 100 acres. You have to have it in sections.

Mr. BLAIR. Yes.

Senator JORDAN of North Carolina. Do you have to pump a lot of the water from ground water, or does it come out of the river?

Mr. CHALKLEY. Both ways. It is cheaper to get water from surface water, because your lift is not as high and the cost per gallon for the power is not as much, but, on the other hand, you do not conserve the water as much with surface irrigation as you do with surface water. But, on the other hand, the subsurface water has certain costs that the other does not have, so that when you get all through they average out about the same. You have to take every angle into consideration.

Senator JORDAN of North Carolina. Do you use liquid fertilizer now?

Mr. CHALKLEY. No, we use pelletized fertilizer and it is generally applied by airplane.

The CHAIRMAN. Since the gentleman from North Carolina has raised the question of support, I wish to point out that the support price on corn this year is just about 80 percent, whereas rice is 68 percent.

Senator RUSSELL of South Carolina. Sixty how much?

The CHAIRMAN. Sixty-eight percent, compared to eighty percent. And the support price of rice, depending on the size of the grain—there are five groups, and I am not going to call out the ranges, but I will ask that this table be placed in the record at this point—there is no commodity in which we have price supports that is as low as rice, 68 percent. As I pointed out earlier, I pleaded with the President and the Budget Bureau to take that into consideration, but somehow I could not persuade them. I am very hopeful that we can get a bill enacted that will increase this income and make it possible for the rice farmers of this country to make a fair living. We have been very liberal—in fact, the administration has been very liberal with the corn people in providing for as much as 80 percent of parity, and they have treated wheat fairly well, too, but I am not trying to pit one commodity against another commodity. At the same time here is a crop that is necessary. It has been used in the past to help feed a lot of people in Asia and in other parts of the world. The farmers cheerfully and gladly respond. Today they find themselves in a position where their livelihood is threatened. So far as I am concerned, I will not let that happen.

Senator JORDAN of North Carolina. I just want to note that I was not trying to point out that it was not price supported.

The CHAIRMAN. I understand that.

Senator JORDAN of North Carolina. I like rice—and grits are good—both of them are good.

The CHAIRMAN. What we are trying to do now is to present a true picture of the situation, so that we can properly legislate in the matter. As I said, I put a bill in as an alternative. I am not wedded to it at all. If we can work out a bill which will give to the farmers, the rice farmers of our country at least the same income that they got last year—they ought to get more—if we consider what is being done for other segments of our society. We have got to find some solution and not take away from them what they already have.

Please proceed, Mr. Blair.

Mr. BLAIR. Thank you, sir.

In prior years, when legislation was enacted, it has taken dedicated study and work by industry and Government people working together

to devise the best type of program. In this case there has been no such opportunity.

In effect, the administration has said "This is our program, the President is behind it, and we are going forward with it. If you want any changes, get them out of the Congress."

And, frankly, that is just exactly about what was said. Frankly, this is a major reason that we are fearful of S. 2111.

With this attitude facing us, just two or three of the discretionary powers or lower limits put into the legislation in either Agriculture Committee, on the floor of either House, or in the conference committee could be disastrous to rice producers.

I certainly don't need to remind the distinguished members of this committee that we are not talking academic questions.

We are talking about whether men whose whole knowledge and lifetime of savings are tied up in rice farming can continue in business, whether their children will be educated, whether there will be money for operations and hospital bills, and all the other things that come from a man's earning of a livelihood.

There are a multitude of things in the production and marketing complex of any commodity to be considered in devising a completely new program. We believe that removal of this title from the bill and reliance on present legislation, recognizing what the consequences may be, would give the industry and the Department of Agriculture time to sit down and try to develop the most workable program. Such a program might be within the framework of present legislation, it might be within the framework of a certificate plan, it might be within the provisions of a market order type of operation or it might be in terms of a higher domestic market price with a relaxation of marketing quotas and acreage controls to allow producers to produce the amount they want to at world market prices, or it might be in terms of realistic bookkeeping that would show actually what would benefit the rice farmers in the way of production.

The point we are trying to make is that there are a considerable number of avenues of approach to support programs and they require more time than is available before this committee and the cooperation of the Department of Agriculture to develop.

We would again point out that the Government costs on which this plan is projected are unrealistic and are not worthy of the impartial and objective approach to this question which we should be able to expect.

We would also point out that under the very best administration of the proposed program, and this would be true if all of these things were written in as fixed items in the bill, the producer will be little, if any, better off than he is under present legislation and not much better off than he would be under the minimums of support and acreage allotment of the present legislation. On the other hand, under the most extreme adverse operation of the proposed program, the rice industry in the United States, as we know it, would cease to exist. Probably what would happen would be somewhere between these two extremes but, in any case, rice producers would be in dire straits if this legislation is enacted.

Despite the facts before us, I must believe that this administration is genuinely concerned about farm income and the income of the rice producers as a substantial part of American agriculture.

I must believe also that, contrary to reports that have been circulated, a department of the U.S. Government would not undertake punitive action against an entire industry because of honest differences of opinion as to the effects of a proposed program.

I believe the entire rice industry is, as it has indicated repeatedly, aware that a problem exists and is wholeheartedly willing to try to arrive at a just and equitable solution.

Again we urge the earnest consideration of this committee looking to the removal of title III and S. 2111 from consideration so that the industry representatives and U.S. Department of Agriculture representatives can work out the problems that face the U.S. Department of Agriculture and will face rice producers if our recommendations are accepted.

Thank you for your kind attention.

The CHAIRMAN. Mr. Blair, I know you and quite a few of the rice handlers and producers have been trying to work together. Do you think that it is possible for all segments of the rice industry, maybe, to get together and to offer some suggestions? The reason I am saying this is that if there is any possible alternative that we can offer to the present law, either by amending it or by amending the bills before us—if this is possible I wish that you would all consider it. The hearings on this bill will probably be closed on the 29th of this month. It will take some time to get all of the data together. Then it is my purpose to have the Department of Agriculture and its various experts come back before this committee, and if we have some alternative suggestions to make either by way of a new bill, or by way of amending the present law or by taking any bill that is before us now and offering suggestions, it might be very helpful.

Mr. BLAIR. We have been having industry meetings repeatedly for the last several weeks and will continue to attempt to come up with something that will make the impact less than it will be at this time.

The CHAIRMAN. I am very hopeful of being able to present to the Senate a proposal that has the blessings of the rice industry and, at least, a partial blessing of the administration. Of course, if that cannot be done, why we will simply have to let the present law be the law until we can get together. But as I say, I would certainly dislike to see the Department be put in the position of having to carry out the suggestions that have been made—that unless something is done, you will have lower price supports for next year and a cut in acreage. I do not want to be put in that position if I can help it, and that is why we are trying to offer some suggestions. Of course if we cannot get together on it, of course we are going to have to permit the present law to remain as is until such a time as we can get together.

Are there any further questions?

Senator JORDAN of North Carolina. I would like to know how many States produce rice as a commercial crop and what States they are and what the percentage is.

Mr. BLAIR. There are five major States and about eight or nine minor States. It is about approximately equally divided in total production. Louisiana has the largest acreage. Texas is next and Arkansas and California and the State of Mississippi. And then there are minor producing States, such as Florida, South Carolina, Illinois, Missouri, Oklahoma, and two or three other States.

Senator JORDAN of North Carolina. How much does South Carolina have in rice?

Senator RUSSELL of South Carolina. A very small amount.

Mr. BLAIR. Around 2,200 acres, I believe.

Senator JORDAN of North Carolina. At one time you did produce a lot of rice.

The CHAIRMAN. Thank you very much, gentlemen.

Our next witness is Mr. Broussard.

But, first, Mr. Blair, I understand that those who accompanied you and who sat around this table with you are in full accord with the statements you have made.

Mr. BLAIR. I believe so, sir. They hired me.

The CHAIRMAN. All right.

We will now hear you, Mr. Broussard.

STATEMENT OF JOE BROUSSARD II, PRESIDENT, RICE MILLERS' ASSOCIATION, BEAUMONT, TEX.

Mr. BROUSSARD. Mr. Chairman and members of the committee, I am Joe Broussard II. I am president of the Rice Millers' Association for the current year. I am also a vice president of Beaumont Rice Mills in Beaumont, Tex.

I have with me members of the Rice Millers' Association whom I would like to introduce at this time and have them come forward, if that would be permissible.

The CHAIRMAN. You may proceed.

Mr. BROUSSARD. First is Mr. Robert B. Goff, of Houston, Tex., vice president of River Brand Rice Mills, with processing plants in Abbeville, Rayne, and Lake Charles, La.; Houston and El Campo, Tex.; in Memphis, Tenn.; and Carlisle, Ark.

And next is Mr. Gordon E. Dore, who is vice president of the Supreme Rice Mill, Inc., Crowley, La.

Next is Mr. Robert B. Holland, Jr., who is president of the Comet Rice Mills, Inc., with processing plants in Bay City, Beaumont, and Houston, Tex., and Harrisburg, Paragold, and Stuttgart, Ark.

And next is J. P. Gaines, executive vice president of the Rice Millers' Association with offices in Washington.

And Mr. Jack R. Smith, the newly elected president of the Rice Millers' Association, who will take office in August of this year. Jack Smith lives in Lake Arthur, La.

The CHAIRMAN. All right. Proceed. Who is the spokesman for the group?

Mr. BROUSSARD. Senator, I have a statement here that is general in nature. I know that you are pressed for time, so that I will ask that it be placed in the record along with the resolution that the Rice Millers' Association passed at its annual convention in May. And my colleagues here will take up specific phases of our presentation.

I would like to have Mr. Goff lead off our presentation at this time.

The CHAIRMAN. All right. Your statement will be put in the record at this point.

(The prepared statement of Mr. Broussard and the resolution referred to follow:)

Senator Ellender and members of the Senate Committee on Agriculture and Forestry, my name is Joe Broussard II. I am president of the Rice Millers' Association for the current year. I am also vice president of Beaumont Rice Mills at Beaumont, Tex. My home is in Beaumont.

I was born and reared in the rice business. My grandfather, Joseph E. Broussard, was a founding father of the Texas rice industry and was also one of the original organizers of the Rice Millers' Association, serving as its president for its first 5 years. When he opened the first rice mill in the State of Texas in 1892, there were only 175 acres sown to rice in all of Texas. Now there are 465,000 acres planted to rice in Texas, from which the productive output exceeds \$100 million in value. The mill which my grandfather founded has been in continuous operation since 1892, as a processing and distribution plant for rice and rice byproducts. In addition to milling, my family has been growing rice since 1890.

The Rice Millers' Association carefully studied and considered the certificate plans which have been proposed.

It is the unanimous conclusion of the members of this association that neither the certificate legislation in S. 1702 or S. 2111, should be enacted, and that Government programs for rice should be continued within the framework of current legislation.

I do not know of a single rice miller who supports the certificate proposals for rice. We are opposed to this legislation because we are convinced it is detrimental to the longtime health and welfare of the rice industry.

Some of the reasons for reaching this conclusion will be described in statements that are to be presented to you by my colleagues in the Rice Millers' Association.

Basically such legislation would have the rice industry sacrifice its domestic market in favor of export markets, largely the very uncertain food-for-peace program under Public Law 480.

We believe this legislation will eventually do grave damage to our most important market—our domestic market. History has shown time and again that our domestic market is stable and secure—but that the foreign market is changeable and uncertain.

We also believe it would be next to impossible to effectively police the certificate proposals. Variations of these proposals were tried for rice in the late thirties, and it was not effectively policed to prevent the unscrupulous few from taking advantage of everybody else.

We also believe it is possible to reduce the cost of the current program within the framework of current legislation in ways that will not unduly punish the rice industry. This program is working well under the efficient administration of the Department of Agriculture.

Before asking my colleagues to elaborate on our position, I want to present to you a resolution that was adopted by the Rice Millers' Association in May at its 66th annual meeting in New Orleans, La., and request that this resolution be included in the record of this hearing.

On behalf of the Rice Millers' Association, I want to express our appreciation to the committee for their kind attention. We are particularly grateful to Senator Ellender for his efforts in maintaining the stability of the rice industry. The keen interest that Senator Ellender has shown is reflected in the present vitality of the rice farmers and the industry.

RESOLUTION OF THE RICE MILLERS' ASSOCIATION, ADOPTED MAY 8, 1965

The Rice Millers' Association has given exhaustive consideration to the certificate legislation for rice that is proposed in title III of S. 1702 and H.R. 7097, the farm bill now before Congress.

This legislation will raise the market price for rice by an average of 5 cents per pound, and shift a large part of the cost of the Federal rice program from the Federal Treasury to the rice consumer.

This association is convinced that such an increase in the price of rice will result in substantial reduction of domestic consumption of rice, particularly in predominant parts of the rice market, such as low-income consumers, the cereal, soup and canning industries, and the brewery trade. These users of rice, making

up over 75 percent of the domestic market, are particularly sensitive to price relationships between rice and other commodities.

Moreover, the legislation proposed in the farm bill, in essence, represents a new tax of \$75 million per year, and it is a tax that will not be equally applied. Certain areas of high rice consumption will be hit especially hard. For example, it will cost Louisiana, and mainly the New Orleans area, \$5 to \$7 million per year which will mean that this 1 State of the fifty States in the Nation will pay 7 to 10 percent of the cost of the program, with most of the cost borne by low-income people, who are the largest rice consumers.

In consideration of these and other factors, this association has concluded that the proposed certificate legislation is inequitable and detrimental and should be eliminated from the farm bill.

This association recognizes the good intentions and objectives of the administration in proposing this legislation as a means of reducing the cost to the Federal Treasury of rice used in foreign aid; and we want to submit some alternative proposals for accomplishing these objectives.

Accordingly, the Rice Millers' Association submits the following proposals for consideration of the administration:

(a) That effort to expand the use of rice in the domestic market be stepped up, including expansion of research and development, intensification of national promotion and advertising, and improvement of product merchandising. We pledge to work diligently to achieve this objective.

(b) That effort to develop dollar export markets for rice be enlarged and intensified. The rice industry has achieved remarkable success in developing dollar exports for rice. Rice from the Southern United States is now being distributed in over 100 countries of the world. We are convinced that dollar exports can be further expanded. We pledge intensification of our efforts to expand dollars export markets for rice.

(c) Grower organizations in the rice industry have recommended that the Government use administrative alternatives within the framework of current rice legislation if necessary to achieve cost reduction goals. We concur in the recommendation of the rice growers

(d) That the rice program be submitted to study of the National Commission on Food and Fiber, which the President proposes to appoint, and that all legislative proposals for rice be held up pending completion of the study of this Commission. We pledge cooperation with the Commission.

Be it resolved, therefore, That members of the Rice Millers' Association, in annual meeting assembled this 8th day of May, nineteen hundred and sixty-five, do unanimously adopt this statement of policy of this association; and be it further

Resolved, That this resolution be conveyed immediately to the Honorable Orville Freeman, Secretary of Agriculture, and to all Members of Congress from rice-producing States.

STATEMENT OF ROBERT B. GOFF, RICE MILLERS' ASSOCIATION, HOUSTON, TEX.

Mr. Goff. Mr. Chairman and members of the committee, my name is Robert B. Goff of Houston, Tex., and I appear before you today on behalf of the membership of the Rice Millers' Association.

The report that I will present has been compiled from data obtained from the U.S. Department of Agriculture, the Rice Millers' Association, the Rice Council for Market Development, J. Walter Thompson Co. and other sources.

I am vice president of River Brand Rice Mills, Inc., and a director of the Rice Council for Market Development.

I have been asked by the membership of the Rice Millers' Association to point out to you some of the possible and probable effects of the proposed legislation in the farm bill S. 1702 on the domestic distribution of rice. We greatly appreciate the opportunity of appearing before you to express these views.

Where does the U.S. rice crop go? We find that 62 percent goes into export and aid programs and 38 percent into domestic consumption.

My remarks will be confined to the 38 percent which moves into domestic consumption and we will consider that. Of this amount 66.7 percent is consumed in direct food use, 18.9 percent in the brewing industry, 14.4 percent in baby foods, package cereals and other food processing and soups.

Next, as to the characteristics of the direct table consumer. Rice is primarily a low-income family item.

Forty-nine percent of the frequent or heavy users are in the lower income group and were at the time of the 1950 Report of the Bureau of Agricultural Economics. That meant family income was less than \$2,240 annually. This group made up less than 25 percent of the population.

In a three-city study published in 1960, conducted under the auspices of the research bureau of the University of Texas by Prof. P. M. Pratt, it was learned that the consumption varied with income as follows:

In the low-income group the annual consumption in pounds per capita was 11.6; in the median-income group it was 6.7 pounds per capita; and in the high-income group it was 6.5 pounds per capita.

Rice is primarily consumed by large family units. Households with five or more persons are 19 percent above the average in the presence of heavy users. Households with five or more are also the lowest group in incidence of nonusers or infrequent users of rice.

Rice consumption is especially high among Negroes, Puerto Ricans, Orientals, and other nonwhites.

Nationally, the consumption by Negroes is at least 50 percent above the U.S. average, again showing the characteristic of rice as a staple for the low-income consumer.

In the three-market domestic consumption study published by the University of Texas, the absolute consumption rates by nonwhites, Negroes, and whites were as follows:

For Atlanta, Negroes, 21.5 pounds per capita; whites, 6.7 pounds per capita.

In Dallas, for Negroes, 14.2 pounds per capita; for whites, 5.4 pounds per capita.

And in Denver, for Negroes, 14.3 pounds per capita; and for whites, 4 pounds per capita.

Among Puerto Ricans and Hawaiians, the very high per capita consumption is also demonstrated:

In Puerto Rico, 1961-62, 124.8 pounds per capita.

In Hawaii, 1961-62, 97.1 pounds per capita.

In the Virgin Islands, 1961-62, 63.3 pounds per capita.

Rice consumption is highest in high-density urban areas. The index of consumption in metropolitan New York is 26-percent higher than the rest of the United States. The larger the metro area, the higher the consumption of rice. This proportionately high concentration of moderate to heavy users are also found in Los Angeles, San Francisco, New Orleans, Philadelphia, Memphis, Atlanta, and Miami.

Consumption is not uniform by region. Within the continental United States the following five States accounted for over half of the

rice bought for direct food consumption: California, New York, Louisiana, Texas, Hawaii.

Assuming per capita consumption remains at present level, the initial 4- to 6-cent per pound increase resulting from this legislation will be borne inequitably, principally by six States. These States, plus the Commonwealth of Puerto Rico, which account together for 28 percent of the population, will pay 88 percent of the increase due to the proposed legislation.

Considering the six States only, excluding Puerto Rico, we know that the certificate burden falls as follows:

We have compared the average of these in our table with the total for the United States and we find that these six States represent five times greater use, 25 percent of the total population below national average income, over 100 percent increase in per capita burden and 59 percent of the burden. Thus, if domestic food users were not to decrease, which is unlikely, as we will show shortly, the burden of the certificate cost will have to be borne by: First, low-income consumers; second, Negroes, Puerto Ricans, Orientals, and other nonwhites; third, heavy urban areas; and fourth, the large-family unit.

(The table referred to above is as follows:)

State or territory	Pounds per capita	Population	(1960 census) median income	Cost increase per capita per year (5 cent average)	Certificate burden
California.....	10.2	18,015,300	\$6,726	\$0.51	\$9,187,803
Hawaii.....	112.7	708,600	6,366	5.64	3,996,504
Louisiana.....	30.0	3,400,700	4,272	1.50	5,161,050
New York.....	8.4	17,865,000	6,371	.42	7,503,300
South Carolina.....	27.1	2,503,600	3,821	1.36	3,404,896
Texas.....	8.9	10,498,600	4,884	.45	4,724,370
Total of 6.....	¹ 32.9	52,991,800	5,407	² .64	33,977,923
United States.....	6.1	190,000,000	5,660	² .30	57,950,000
These 6 represent.....	(3)	(4)	(5)	(6)	(7)

¹ Average.

² Average per capita.

³ 5 times greater use.

⁴ One-fourth total population.

⁵ Below national average income.

⁶ Over 100 percent increase in per capita burden.

⁷ 59 percent of burden.

Mr. Goff. In industrial consumption we next look at the brewing industry which we find consumes 18.9 of our 38 percent.

As an industrial application consider the market for brewer's rice, which is a rice grit produced as an unavoidable byproduct in the milling of rice. Total consumption by brewers is 18.9 percent of domestic production. This has been a declining market in recent years.

The price of brewer's rice, presently and historically, has been higher than the price of corn grits, the primary competitive item. If brewer's rice could not absorb the price increase, this increase would have to be passed to the domestic direct food user. With about 3 million hundred-weights consumed per annum by brewers, inability to pass along a price increase on this byproduct to the brewing industry would further increase the price rise in table rice from 4 to 6 cents a pound to about 5 to 7 cents per pound.

The next segment of our 38 percent abse is the food processing industry which consumes 14.4 percent.

The food processing market is another important rice customer. It consists of baby food, soup, and cereal manufacturers.

Shelf prices of these products will reflect the price increase in proportion to the use of rice. The large young family units are the most directly affected domestic consumer.

We greatly fear the shift from rice to other less expensive ingredients, further increasing the price to be borne by the direct food use consumer.

It can be demonstrated that the proposed certification program will lead to a direct table food rice price increase domestically of 4 to 6 cents per pound at the consumer level upon the start of the program.

Present national retail price, at apprximately 18 cents per pound: Immediate increase, 4 to 6 cents per pound shows a percentage increase of 28 percent.

Present domestic consumption, 38 percent of the total consumption, is 18,782,000 hundredweights. And of that 66.7 percent goes into direct table use, or 12 million hundredweights are consumed in direct table use.

In order to find out what might happen in the domestic market we had a small regional survey run. The total survel is included in the back of the folder. We will only speak to two of the tables that we have taken as exrcerpts from the survey.

The first table shows what this group of people in this small regional survey said would happen if rice increased 4 to 6 cents per pound. The significant point is that among those who served rice four or more times a week prior to the price increase, 55 percent planned to continue to serve it four or more times per week, but 45 percent planned to reduce their frequency of serving rice to only two or three times a week.

(The table referred to above is as follows:)

TABLE 1.—Attitudes of rice buyers toward increases in the price of rice
[In percent]

Expect reaction of average rice buyers	When the price of rice is in- creased—	
	4 to 6 cents per pound	8 to 12 cents per pound
No change in buying habits.....	53	25
Use less rice; buy less often, serve less often.....	23	42
Serve substitute foods more often; i.e., potatoes.....	12	-----
Stop buying rice altogether.....	5	9
Depends on income/budget for food.....	3	-----
Buy/look for a less expensive brand of rice.....	2	-----
Switch to substitute foods; i.e., potatoes.....	-----	9
Depends on price of rice compared to substitute foods.....	-----	9
No change among light users; heavy users reduce consumption.....	-----	3
Other miscellaneous reasons.....	4	2
Don't know; not reported.....	6	9
Total.....	¹ 108	¹ 108
Base (rice buyers).....	(181)	(181)

¹ Totals to more than 100 percent due to multiple answers.

Mr. Goff. Based on table 2 of the recent consumer study by Higginbotham Associates' May 1965 report:

A study of consumer attitudes in terms of expected reaction to a proposed increase in the price of rice—

It can be demonstrated that moderate to heavy rice consumers will decrease their frequency of serving by 2.69 to 7.01 servings per month or 35 to 40 percent. While it is not possible to accurately predict what will happen nationally to high-, moderate-, and low-frequency users based on a limited sample in one region, and results of this survey are sufficiently valid to be indicative of the probable effect and cause no little alarm.

(The table referred to above is as follows:)

TABLE 2.—Expected change in frequency of serving rice as a result of a 4- to 6-cent price increase

[In percent]

Column code	A 4- to 6-cent price increase will cause rice users to begin serving rice this often—	Among groups of rice users who prior to price increase served rice this often (see column code at left)						
		A	B	C	D	E	F	Total
A	4 or more times a week	55						6
B	2 to 3 times a week	45	54					19
C	1 time a week		34	49				23
D	2 to 3 times a month		6	36	69			25
E	1 time a month			2	14	44		9
F	Less often than once a month				3	30	3	6
	Stop serving rice		2		3	13		3
	Don't know; not reported		4	13	11	13	1	9
	Total	100	100	100	100	100	4	100
	Base (rice users)	(20)	(47)	(52)	(35)	(23)	(4)	(181)

NOTES

This table reads: Among those who served rice 4 or more times a week prior to the price increase, 55 percent plan to continue serving it 4 or more times a week and 45 percent plan to reduce their frequency of serving rice to only 2 or 3 times a week.
Mean present frequency: 7.01 servings per month.
Mean projected frequency: 4.32 servings per month.
Mean frequency would change from 7.01 to 4.32 or -2.69 servings per month—a 38-percent decrease.

Mr. Goff. Extrapolations of the results indicate a decrease of direct consumption from 12 million hundredweights to 7,500,000 hundredweights per year.

However, because of the program burden to be carried by the domestic direct food base, that the price increase should escalate, too, from 4 to 6 cents per pound, to 6.4 to 9.6 cents per pound. A 6.4- to 9.6-cent-per-pound projected increase results.

Obviously, this would cause a further decline in domestic consumption as is evident from table 1, for instance, only 25 percent of the consumers had no purchase intent change with respect to an increase of price of over 8 cents per pound.

Hence the price increase will have effectively decreased the domestic base which was supposed to carry the certificate program cost.

In conclusion, this association is convinced that such an increase in the price of rice will result in substantial reduction of domestic consumption of rice, particularly in predominant parts of the rice market, such as low-income consumers, the cereal, soup, and canning industries and the brewery trade. These are users of rice making up over

75 percent of the domestic market, particularly sensitive to price relationships between rice and other commodities.

I thank you.

The CHAIRMAN. The appendage to your statement will be made a part of the record at this point.

(The document referred to follows:)

A STUDY OF CONSUMER ATTITUDE IN TERMS OF EXPECTED REACTION TO A PROPOSED INCREASE IN THE PRICE OF RICE

(Prepared for Rice Council for Market Development, by Higginbotham Associates, Houston, Tex., May 1965)

HIGGINBOTHAM ASSOCIATES,
Houston, Tex., May 10, 1965.

To recipients of This Study:

On May 6, 1965, Rice Council for Market Development, commissioned Higginbotham Associates to conduct a study designed to obtain information about consumer attitude toward proposed price increases for rice.

After the questions to be asked were agreed to, questionnaire design and pre-testing, sample design, tabulation, and preparation of the report was performed by Higginbotham Associates, an independent marketing research and consulting firm.

Users of this information may place confidence in the fact that the statistics presented in this report are both accurate and reliable within the framework of the study design.

Sincerely,

JAMES B. HIGGINBOTHAM, *President.*

FACTS ABOUT THE STUDY

Sponsor : Rice Council for Market Development.

Conducted by : Higginbotham Associates.

Purpose: To measure consumer attitude toward price increases for rice and to obtain a measure of the probable changes in rice consumption reflected in changes in frequency of serving rice.

Time of fieldwork: The interviews were completed on May 7 and 8, 1965.

The population under study: All telephone households listed in the Greater Houston telephone directory were selected for study. The lady of the house was selected to be the qualified respondent.

The sample: A random sample was selected in accordance with procedure outlined by Hansen, Hurwitz, and Madow in their book, "Sample Survey Methods and Theory," volume I. Thus, the statistical error may be measured and the results may be projected to the population under study within known limits of accuracy. A table of standard error ranges may be found in the technical appendix.

Completion rate: In order to produce accurate results, every effort possible was made to complete interviews with telephone households selected for the sample. A 74.3-percent completion rate was obtained. An accounting of all telephone households listed for the sample may be found in exhibit A in the technical appendix.

GENERAL RESULTS

The important findings of this study are summarized in the tables presented on the following two pages. Table 1 summarizes the attitude of rice buyers toward both a 4- to 6-cent and an 8- to 12-cent-per-pound increase in the price of rice. Table 2 demonstrates the shift in frequency of serving rice that would be caused by a 4- to 6-cent-per-pound increase in the price of rice.

One must keep in mind that the statistics presented in this report are based on the reaction of a scientifically selected sample of consumers to the questions asked at this point in time. In order to increase the reliability of answers given, the projective technique of questioning was employed. A copy of the questionnaire may be found at the back of this report.

A complete tabulation of the findings of this study is presented in the statistical appendix.

TABLE 1.—Attitudes of rice buyers toward increases in the price of rice
[In percent]

Expected reaction of average rice buyers	When the price of rice is increased—	
	4 to 6 cents per pound	8 to 12 cents per pound
No change in buying habits.....	53	25
Use less rice; buy less often; serve less often.....	23	42
Serve substitute foods more often; i.e., potatoes.....	12	-----
Stop buying rice altogether.....	5	9
Depends on income/budget for food.....	3	-----
Buy/look for a less expensive brand of rice.....	2	-----
Switch to substitute foods; i.e., potatoes.....	-----	9
Depends on price of rice compared to substitute foods.....	-----	9
No change among light users; heavy users reduce consumption.....	-----	3
Other miscellaneous reasons.....	4	2
Don't know; not reported.....	6	9
Total.....	1 108	1 108
Base (rice buyers).....	181	181

¹ Totals to more than 100 percent due to multiple answers.

TABLE 2.—Expected change in frequency of serving rice as a result of a 4- to 6-cent price increase

Column code	A 4- to 6-cent price increase will cause rice users to begin serving rice this often—	Among groups of rice users who prior to price increase served rice this often (see column code at left)—						
		A	B	C	D	E	F	Total
		Per-cent	Per-cent	Per-cent	Per-cent	Per-cent	Num-ber	Per-cent
A	4 or more times a week.....	55	-----	-----	-----	-----	-----	6
B	2 to 3 times a week.....	45	54	-----	-----	-----	-----	19
C	1 time a week.....	-----	34	49	-----	-----	-----	23
D	2 to 3 times a month.....	-----	6	36	69	-----	-----	25
E	1 time a month.....	-----	-----	2	14	44	-----	9
F	Less often than once a month.....	-----	-----	-----	3	30	3	6
	Stop serving rice.....	-----	2	-----	3	13	-----	3
	Don't know; not reported.....	-----	4	13	11	13	1	9
	Total.....	100	100	100	100	100	4	100
	Base (rice users).....	(20)	(47)	(52)	(35)	(23)	(4)	(181)

NOTE.—Among those who served rice 4 or more times a week prior to the price increase, 55 percent plan to continue serving it 4 or more times a week and 45 percent plan to reduce their frequency of serving rice to only 2 to 3 times a week.

TABLE 3.—Expected change in frequency of serving rice when price is increased 4 to 6 cents per pound
[In percent]

Frequency of serving rice	Before price increase	After price increase
4 or more times a week.....	11	6
2 to 3 times a week.....	26	19
1 time a week.....	29	23
2 to 3 times a month.....	19	25
1 time a month.....	13	9
Less often than once a month.....	2	6
Stop serving rice.....	-----	3
Don't know; not reported.....	-----	9
Total.....	100	100
Base (rice users).....	(181)	(181)

TABLE 4.—*Influence of income on expected change in frequency of serving rice when price is increased 4 to 6 cents per pound*

[In percent]

Frequency of serving rice	Under \$5,000 annual income		\$5,000 and over annual income	
	Before price increase	After price increase	Before price increase	After price increase
4 or more times a week.....	19	11	7	2
2 to 3 times a week.....	32	23	25	17
1 time a week.....	21	21	34	26
2 to 3 times a month.....	15	17	19	29
1 time a month.....	11	9	12	9
Less often than once a month.....	2	6	3	7
Stop serving rice.....		2		3
Don't know; not reported.....		11		7
Total.....	100	100	100	100
Base (rice users).....	(47)	(47)	(112)	(112)

TABLE 5.—*Influence of race on expected change in frequency of serving rice when price is increased 4 to 6 cents per pound*

[In percent]

Frequency of serving rice	Negro households		White households	
	Before price increase	After price increase	Before price increase	After price increase
4 or more times a week.....	35	19	5	2
2 to 3 times a week.....	40	35	22	15
1 time a week.....	16	29	33	23
2 to 3 times a month.....	3	7	22	30
1 time a month.....	6	7	15	10
Less often than once a month.....		3	3	6
Stop serving rice.....				4
Don't know; not reported.....				10
Total.....	100	100	100	100
Base (rice users).....	(31)	(31)	(142)	(142)

STATISTICAL APPENDIX

TABULATION OF SURVEY RESULTS

A detailed tabulation of the results of this study is presented on the following pages. Since the frequency of using a product is highly influential on one's attitude toward the importance of price for a product, all questions were cross tabulated by frequency of serving rice. In order to facilitate the presentation of these cross tabulations, the following column codes are used to identify the cross-tabulation columns:

Column code:	<i>Frequency of serving rice</i>
A.....	4 or more times a week.
B.....	2 or 3 times a week.
C.....	1 time per week.
D.....	2 or 3 times a month.
E.....	1 time per month.
F.....	Less often than once a month.

Rice study

	A— Num- ber	B— Num- ber	C— Num- ber	D— Num- ber	E— Num- ber	F— Num- ber	Total	
							Num- ber	Percent
1. Do you ever buy any type of rice for use in your home?								
Yes.....	20	47	52	35	23	4	181	88
No (terminate).....							24	12
Total.....	20	47	52	35	23	4	205	100
2. How often do you serve rice to your family? Do you include any type of prepared mixes, such as Spanish Rice and Rice-A-Roni.								
(A) 4 or more times a week.....	20						20	11
(B) 2 to 3 times a week.....		47					47	26
(C) 1 time per week.....			52				52	29
(D) 2 to 3 times a month.....				35			35	19
(E) 1 time per month.....					23		23	13
(F) Less often than once a month.....						4	4	2
Total.....	20	47	52	35	23	4	181	100
3. The last time you bought rice what brand did you buy?								
Uncle Ben's.....	5	14	11	12	9	1	52	29
Adolphus.....	10	16	17	4	3		50	28
Minute Rice.....	2	7	14	11	6	2	41	23
Wonder.....	1	3	4		2	1	11	6
Comet.....		1	4	2	2		9	5
Blue Ribbon.....	2	1	1				4	2
Other brands.....	1	5	1	1	1		9	5
Don't know; not reported.....			1	5			6	3
Total.....	¹ 21	47	52	35	23	4	¹ 182	¹ 101
Base.....	(20)	(47)	(52)	(35)	(23)	(4)	(181)	
4. How much did you pay for it?								
Under 20 cents.....			1	4			5	3
20 to 29 cents.....		8	15	8	5	2	38	21
30 to 39 cents.....	8	8	10	4	2		32	18
40 to 49 cents.....	3	6	5	5			19	10
50 to 59 cents.....	1	6	2	1			10	5
60 to 69 cents.....	1	2					3	2
70 to 79 cents.....		4	4	2	2		12	7
80 to 89 cents.....	1	1	2				4	2
90 to 99 cents.....								
\$1 to \$1.99.....	3	1					4	2
\$2 or more.....	1						1	1
Don't recall.....	2	11	13	11	14	2	53	29
Total.....	20	47	52	35	23	4	181	100
5. What size box or bag was it?								
6 to 10 oz.....		2	2	4	4		12	7
11 to 15 oz.....			3	6			9	5
1 lb.; 1 lb. 8 oz.; 1 lb. 12 oz.....	2	13	18	8	6	1	48	26
2 lb.; 2 lb. 10 oz.....	9	19	20	6	7	1	62	34
3 lb.....	4	5	1	2			12	7
5 lb.....	2	1					3	2
10 lb.....	2	2					4	2
25 lb.....	1						1	1
Small size.....			2	2	1	2	7	4
Medium-regular size.....		3	3	3	1		10	5
Large size.....		1	2	3	2		8	4
Don't know.....		1	1	1	2		5	3
Total.....	20	47	52	35	23	4	181	100

See footnote at end of table, p. 856.

Rice study—Continued

	A— Num- ber	B— Num- ber	C— Num- ber	D— Num- ber	E— Num- ber	F— Num- ber	Total	
							Num- ber	Percent
6. If rice were to go up in price 4 to 6 cents a pound this next month, what do you think the average homemaker would do?								
No change in buying habits...	11	23	26	22	11	3	96	53
Use less rice; buy less often; serve less often.....	5	11	13	6	6	-----	41	23
Serve substitute foods more often; i.e., potatoes.....	1	6	8	3	3	-----	21	12
Stop buying rice altogether.....	2	3	2	1	1	-----	9	5
Depends on income/budget of food.....	-----	1	3	-----	-----	1	5	3
Buy/look for a less expensive brand of rice.....	-----	3	-----	1	-----	-----	4	2
Other reasons.....	1	2	2	1	1	-----	7	4
Don't know.....	-----	3	4	3	1	-----	11	6
Total.....	20	1 52	1 58	1 37	23	4	1 194	1 108
Base.....	(20)	(47)	(52)	(35)	(23)	(4)	(181)	-----
7. Thinking about an average homemaker who serves rice (insert answer to question 2), how often do you think she will serve rice if the price goes up 4 to 6 cents a pound?								
4 or more times a week.....	11	-----	-----	-----	-----	-----	11	6
2 to 3 times a week.....	9	25	-----	-----	-----	-----	34	19
1 time a week.....	-----	16	25	-----	-----	-----	41	23
2 to 3 times a month.....	-----	3	19	24	-----	-----	46	25
1 time a month.....	-----	-----	1	5	10	-----	16	9
Less often than once a month.....	-----	-----	-----	1	7	3	11	6
Would not serve.....	-----	1	-----	1	3	-----	5	3
Don't know; not reported.....	-----	2	7	4	3	1	17	9
Total.....	20	47	52	35	23	4	181	100
8. We understand that rice will go up 4 to 6 cents a pound this next month and then a year from now will go up another 4 to 6 cents a pound. How often do you think an average homemaker who now serves rice (insert answer to question 2) will serve rice a year from now if the price is from 8 to 12 cents higher than it is now?								
Use less rice; buy less often; serve less often.....	10	27	20	11	7	-----	75	42
No change in buying habits.....	8	7	13	9	7	2	46	25
Stop serving rice altogether.....	1	3	5	5	3	-----	17	9
Switch to substitute food; i.e., potatoes.....	1	4	4	5	3	-----	17	9
Depends on price of rice in relation to substitute foods.....	-----	4	6	2	3	1	16	9
No change among light users; heavy users would reduce consumption.....	-----	2	1	2	1	-----	6	3
Other answers.....	1	1	2	-----	-----	-----	4	2
Don't know; not reported.....	-----	2	4	5	2	1	14	9
Total.....	1 21	1 50	1 55	1 39	1 26	4	1 195	1 108
Base.....	(20)	(47)	(52)	(35)	(23)	(4)	(181)	-----

See footnote at end of table, p. 856.

Rice study—Continued

	A— Num- ber	B— Num- ber	C— Num- ber	D— Num- ber	E— Num- ber	F— Num- ber	Total	
							Num- ber	Percent
And now for classification purposes I need to ask a couple of ques- tions. How many people, includ- ing yourself, live in your home?								
1-----		1	3	4	1		9	5
2-----	5	9	11	5	6	2	38	2
3-----	4	10	14	10	2		40	22
4-----	2	10	10	11	5	2	40	22
5-----	5	6	8	3	4		26	14
6-----	3	8	4	1	4		20	11
7-----		1	1				2	1
8-----	1	1	1				3	2
9-----		1					1	1
Refused-----				1	1		2	1
Total-----	20	47	52	35	23	4	181	100
And now, in addition, I need to get some indication of about how much your family income is. Is it above or below \$5,000 annually? If above, is it above or below \$10,000? If below, is it above or below \$2,500?								
Under \$5,000-----	9	15	10	7	5	1	47	26
\$5,000 or more-----	8	28	39	21	13	3	112	62
Don't know; not reported-----	2	1	3	2	2		10	5
Refused-----	1	3		5	3		12	7
Total-----	20	47	52	35	23	4	181	100
Under \$2,500-----	6	3	2	2	3	1	17	9
\$2,500 to \$4,999-----	3	8	6	3	2		22	12
\$5,000 to \$9,999-----	5	17	17	11	6	2	58	32
\$10,000 or more-----	2	9	16	7	5	1	40	22
Don't know; not reported-----	3	7	6	5	4		25	14
Refused-----	1	3	5	7	3		19	11
Total-----	20	47	52	35	21	4	181	100
Estimate race:								
White-----	7	33	46	31	21	4	142	79
Latin-----	2	2					4	2
Negro-----	11	12	5	1	2		31	17
Not sure-----			1	3			4	2
Total-----	20	47	52	35	23	4	181	100

¹ Totals to more than base and 100 percent due to multiple purchases.

TECHNICAL APPENDIX

EXHIBIT A

Disposition of telephone households randomly selected for sample

A.	Total telephone households listed-----	286
B.	Telephone disconnected-----	10
C.	No answer on four call attempts-----	44
D.	No qualified respondent available-----	2
E.	Refused to give interview-----	25
F.	Do not buy rice-----	24
G.	Total interviews completed with rice users-----	181

EXHIBIT B

Effective interview completion rate

H. Potential interviews (A—B=Potential)	276
I. Interviews completed (F+G=Completion)	205
J. Interview completion rate (I as a percent of H) (percent)	74.3

RICE STUDY

Respondent No. _____
Name: _____ Telephone No.: _____

1st call Date:		2d call Date:		3d call Date:		4th call Date:		5th call Date:		6th call Date:		Final dis- position
Time	Result	Time	Result	Time	Result	Time	Result	Time	Result	Time	Result	

Hello, I'm _____ with Higginbotham Associates, a marketing re-
search firm. We are conducting a study on people's attitude toward different
products, and I have several questions to ask. First of all _____
1. Do you ever buy any type of rice for use in your home?
 () Yes = Go to G. 2.
 () No = terminate.
Interviewer_____

Respondent No. _____
1. Do you ever buy any type of rice for use in your home? Yes, 1. No, 2
(terminate).
2. How often do you serve rice to your family? Do not include any type of
prepared mixes, such as Spanish Rice and Rice-A-Roni. _____ a _____
3. The last time you bought rice, what brand did you buy? _____
4. How much did you pay for it? _____
5. What size box or bag was it? _____
6. If rice were to go up in price 4 to 6 cents a pound this next month, what do
you think the average homemaker would do? _____
7. Thinking about an average homemaker who serves rice (see Q. 2), how
often do you think she will serve rice if the price goes up 4 to 6 cents a pound?

8. We understand that rice will go up 4 to 6 cents a pound this next month,
and then a year from now will go up another 4 to 6 cents a pound. How often
do you think an average homemaker who now serves rice (see A 2), will serve
rice a year from now if the price is from 8 to 12 cents higher than it is now?

And now for classification purposes I need to ask a couple of questions. How
many people, including yourself, live in your home? _____
And now, in addition, I need to get some indication of about how much your
family income is. Is it above or below \$5,000 annually?

Above \$5,000_____	1	Below \$5,000_____	2
If above: Is it above or below \$10,000:		If below: Is it above or below \$2,500:	
Above \$10,000_____	1	Above \$2,500_____	1
Below \$10,000_____	2	Below \$2,500_____	2

Estimate race: White, 1; Latin, 2; Negro, 3.

Standard error for estimated percentages at the 90-percent confidence interval

Base of percentage	Percent of error for different estimated percentages				
	10 or 90 percent	20 or 80 percent	30 or 70 percent	40 or 60 percent	50 percent
400-----	2.5	3.3	3.8	4.0	4.1
350-----	2.6	3.5	4.1	4.4	4.4
300-----	2.9	3.8	4.4	4.6	4.8
250-----	3.1	4.2	4.8	5.1	5.2
200-----	3.5	4.7	5.4	5.7	5.8
150-----	4.1	5.4	6.3	6.6	6.8
100-----	5.0	6.6	7.6	8.1	8.3
50-----	7.1	9.4	10.8	11.5	11.8

NOTE.—Interpretation: The standard error for a survey percentage of 40 percent, based on 250 respondents, is 5.1 percent with a 90-percent confidence interval. This means that the odds are 90 out of 100 that the true percentage (the percentage that would be obtained if a complete census was made) would fall between 34.9 percent and 45.1 percent. In other words, the true percentage would fall below 34.9 percent or above 45.1 percent only 10 times out of 100 random surveys.

The CHAIRMAN. Are there any questions?
If not, who is next, Mr. Broussard?
Mr. BROUSSARD. Mr. Holland will take up the subject next.

STATEMENT OF ROBERT B. HOLLAND, JR., RICE MILLERS' ASSOCIATION, DALLAS, TEX.

Mr. HOLLAND. Mr. Chairman and members of the Senate Committee on Agriculture and Forestry, as a way of introduction, I am Robert B. Holland, Jr., president of Comet Rice Mills, Inc. Comet Rice has processing plants in Bay City, Beaumont, and Houston, Tex., and Harrisburg, Paragould, and Stuttgart, Ark.

Comet Rice is considered to be one of the largest processors of rice in the Southern United States. Comet merchandises its products both in the continental United States and in overseas markets. We have invested considerable time, money, and energies in the promotion and merchandising of rice, both here and abroad for many years.

I am vitally concerned with the proposed legislation and am convinced that other alternative methods or approaches can be taken that will achieve the objectives of the proposed legislation.

By way of background information, I think that it would be helpful to review the results that have been achieved by the rice industry in promoting commercial markets for rice.

Several years ago the rice industry formed into a voluntary industry-wide organization called the Rice Council, for the purpose of advertising and promoting consumption of rice. The council was formed in 1957, and a study has been made that shows that in contrast to the downward consumption trends in many of the other so-called carbohydrate group foods, rice consumption has been increasing steadily since then. The per capita consumption has increased by almost 2 pounds since 1959, and now stands at over 7 pounds. Although 37 States consume less than 7 pounds per person average, the trend in these States is also upward. During a 5-year period—1957–63—distribution of rice to these low-consuming States increased 23 percent.

These fine results were not achieved by the Rice Council alone, of course, but through cooperation of all segments of the American food marketing industry.

I am convinced that continued and strengthened efforts by the domestic marketers in cooperation with the Rice Council will in the future achieve similar results and reduce materially the costs of our present rice program. The Government program for rice should be one that will encourage and foster this effort.

The next area of rice marketing I would like to review is the dollar export markets. In the crop year 1957-58, the United States exported 5,900,000 hundredweights of rice for dollars. In the crop year 1963-64, the United States exported 16,800,000 hundredweights of rice for dollars; an increase of 285 percent. We are having another big increase in the current market year which ends July 31. Dollar exports for this year will exceed last year by 10 to 15 percent.

This increase is remarkable and is a tribute to the quality products that the industry ships and the aggressive marketing done by many firms. The United States exports to over 100 countries and is the quality leader.

I do not feel that we have achieved our limits. Our dollar exports can continue to grow in the future. It would be of material assistance, however, if the Government in its determination of its export equalization payments, would get our markets more competitive than has been the case in the past. Government policy has been to be tightfisted on export payments. This is not a wise policy, as a more liberal payment would enable us to sell more products for dollars, thus reducing the amount available for programing under the Public Law 480 programs, hence reducing the costs to our Government. It costs the Government, by their accounting methods, about \$8.25 per hundredweight to ship rice under Public Law 480, but only \$2.25 per hundredweight to ship rice for dollars. Anything that would stimulate our dollar exports, thus would have a sharp effect on the cost of the export program.

There is an ever-growing demand for rice worldwide, because of population explosion, and the United States should play a prominent role.

The next area that I would like to review is the part that research and development has played in our past success. The research and development work that has been done by industry and Government has brought to the consuming public both better products and lower costs. I would like to project what it will be in the future as far as accomplishing a reduced overall cost to our Government. It is sometimes easy to accept the tremendous strides in farming, processing, and product development without looking to the forces at work that have brought them about.

Research and development has enabled the American rice farmer to produce new high quality varieties that have met excellent worldwide acceptance. Research and development has enabled processors to change to meet market needs and to satisfy those needs with better products at practical, workable prices.

This research and development has been conducted by both private and public groups.

I am convinced that in the future that new varieties, processes, and products will be developed that will satisfy the consuming public even more fully than in the past. This again will result in a lowering of governmental rice costs.

The certificate programs proposed in both S. 1702 and S. 2111, will definitely have an adverse effect on all rice research and development effort. Several companies have already put all developmental work on rice on the shelf, pending the outcome of the domestic certificate legislative proposals. Some of the products which are in planning show great promise. It would be most unfortunate—in fact, it would be tragic—to impose a legislative program on rice that would discourage this kind of work.

Ricegrowers have indicated an additional way to cut the costs of the rice program. That is, by reducing the support level of rice. This reduction would have an unfortunate effect on grower income, but this might be offset somewhat by favorable market effects. It would make rice more favorably priced to the table rice user, thus enabling their purchasing power to be stretched further. The reduced price would stimulate processors to further their research and market development work on rice. It would lower the export equalization payments for rice moving on export markets.

In summary, I would like to repeat the various alternative ways that rice costs can be reduced to the Government:

(1) Further encouragement of domestic marketing forces, such as the Rice Council, to expand promotion work in the domestic market. Certificate programs would discourage this effort.

(2) Stimulate more dollar export sales by putting into effect more favorable export equalization payments.

(3) Expand research and market development work.

(4) Take other administrative action under present legislation.

There are probably other alternative methods, and I would recommend that these suggestions, plus the others that have been suggested, be referred to the Food and Fiber Council that President Johnson has recommended be established for their expert evaluation and subsequent recommendation.

In the meantime, we think it would be unwise to change the present program for rice. It is working most successfully.

Thank you.

The CHAIRMAN. Are you in agreement with Mr. Broussard's statement that if this two-price system goes through it will decrease the consumption?

Mr. HOLLAND. Yes, sir, I am.

The CHAIRMAN. That would mean, of course, disaster to the producers if you reduce the amount consumed.

Mr. HOLLAND. That is right. It would escalate, sir. It would snowball, we think, sir.

The CHAIRMAN. Are there any further questions?

Senator BOGGS. I want to say, Mr. Chairman, in the first place that I certainly have been impressed with the fine presentation of this testimony but I was curious as to this statement on page 3:

It costs the Government, by their accounting methods, about \$8.25 per hundredweight to ship rice under Public Law 480 but only \$2.25 per hundredweight to ship rice for dollars.

I do not know whether you have it available or not, but I would wish that we could get a breakdown on that. I would like to see it spelled out, so that we more fully understand it.

The CHAIRMAN. Can you furnish that?

Mr. HOLLAND. We can get that and put it into the record.

Senator BOGGS. I would like to see it.

The CHAIRMAN. Do that and put it into the record at this point. These hearings will not be closed until July 1. You will have ample opportunity to submit it, to submit all of the information available.

This is a program that we want to try to preserve and conserve and assist the farmers as much as we can. And we can do that by having orderly facts.

(The information referred to follows:)

THE RICE MILLERS' ASSOCIATION,
Washington, D.C., June 28, 1965.

Hon. ALLEN J. ELLENDER,
Chairman, Senate Committee on Agriculture and Forestry,
Senate Office Building, Washington, D.C.

DEAR SENATOR ELLENDER: During the course of testimony of representatives of this association at the committee hearings on June 24, Senator Boggs raised a question about the comparative cost of rice shipped for dollar exports and rice shipped under Public Law 480.

For the information of Senator Boggs and the committee, I want to submit the following statistics on rice shipments during the rice crop market year, August 1, 1963–July 31, 1964:

Year, Aug. 1, 1963–July 31, 1964	Quantity— million hun- dredweight	Government accounting cost in millions	Cost per 100-pound bag
Dollar export shipments.....	16.7	\$39.0	\$2.33
Public Law 480 shipments.....	13.7	126.0	9.20

It will be observed that by average, the cost in 1963 and 1964 was \$9.20 per hundredweight for rice shipped under Public Law 480, as against \$2.33 per hundredweight for rice shipped for dollar exports, a difference of \$6.87 per 100 pounds. In reference to the Public Law 480 shipments, a figure was given in testimony which represents an FAS cost and does not include the cost of transportation. Government accounting practices, however, charge the cost of ocean transportation to the Public Law 480 program and this is included in the figures herein presented.

I hope this clarifies the subject for the committee and we shall be happy to provide any further information that may be desired. I want to ask that this be placed in the appropriate place in the record of the committee hearings.

Sincerely,

J. P. GAINES,
Executive Vice President.

The CHAIRMAN. Who is next?

Mr. BROUSSARD. The next phase of our presentation will be handled by Mr. Dore.

STATEMENT OF GORDON E. DORE, RICE MILLERS' ASSOCIATION, CROWLEY, LA.

Mr. DORE. Mr. Chairman and members of the committee, my name is Gordon E. Dore. I am vice president of the Supreme Rice Mill, Inc., Crowley, La., a member of the board of directors of the Rice Millers' Association, a member of the National Rice Industry Advisory Committee, and a member of the U.S. Department of Commerce Regional Export Expansion Council.

Enforcement of a certificate program such as that proposed under S. 1702 and S. 2111 is impossible. I do not, by way of this statement,

intend to condemn the American rice milling industry, but it is a known fact that rice milling is a close-profit industry. When we consider a program that necessitates the purchase of domestic certificates, which represents a figure equal to approximately 80 percent of the inventory value of the basic product, we all know that we are inviting unscrupulous individuals to conceive ways and means of adjusting inventories in order to escape the payment of certificates for rice that will move into the domestic market.

Under the proposed bill a miller must purchase certificates valued at approximately \$2.90 per hundredweight. Under either proposal it is impossible to determine how much paddy rice has been procured for processing, or how much has been processed. It is a common practice for a mill to acquire a rough rice inventory by purchasing from the producer what is known as "green rice." This term is used to describe rice which has been combined only, and delivered by the farmer to the elevator. This rice must be dried and cleaned as a prerequisite of further storage and milling. Some green rice is delivered with 23-percent moisture and some with 16-percent moisture, depending on weather conditions, type and variety of rice and, in many cases, the farmer's position with reference to the remainder of his crop to be harvested.

Because of moisture content and type of harvesting equipment, each lot of rice will contain different amounts of straw and other foreign materials which must be removed prior to drying and milling. This, plus the fact that some mills dry their rice to as low as 12 percent and some only to 14-percent moisture, makes it very complicated to prove an inventory from green rice receipts. With just minor adjustments for loss in drying and cleaning, a miller could manipulate his green rice inventory by 3 or 4 percent.

The possibility of verifying an inventory from milled rice outturn is just as complicated. No two lots of rice are milled alike. Some rice is sold as well milled, some as loose milled, and large quantities as brown rice. In each case, the outturn of both head rice and total outturn is decreased as the degree of milling is increased. Again, a 3- to 5-percent manipulation is not hard to conceive.

Let us take a specific example: Mill X receives 600,000 hundredweights of green rice—this would be classified as a small operation—actual loss for drying and cleaning is 12 percent, but records are adjusted to show a total loss of 15 percent. This is a small differential of only 3 percent but equal to 18,000 hundredweights, valued at \$2.90 per hundredweight for a total of \$52,200. When this rice is milled, figures are again adjusted to show a milling yield of 87 pounds of head rice when the actual outturn was 83 pounds. This accounts for another manipulation of 3 percent and another \$50,000. The total money involved because of these manipulations will exceed \$100,000, which is a sum larger than the normal profits derived from this size milling operation.

So far, I have attempted to show how individuals could intentionally adjust their inventory in an effort to gain some stocks of rough rice which could be sold free of certificate cost. The idea of enforcement is further complicated in that it is impossible to establish an average in order to determine conversion factors. I say that this is impossible for these reasons: (1) No two mills acquire their

inventory in a like manner. Some mills purchase large quantities of green rice while other mills build their inventories by purchasing dry rice—a term used to describe rice which has been dried and is ready for milling—from commercial driers and from on-the-farm storage. These driers follow their own procedure in drying and the finished product will vary from one drier to another depending on the amount of moisture removed, the manner in which the moisture was removed, and the degree of cleaning that has been accomplished. (2) No two lots of rice are processed alike by different rice mills. Some mills practice different methods of milling and make different separations of the grain, depending on their individual sales potential. Because of all the variables which are involved, it is not practical to think that an average could be determined and made to apply against all rice mills and on all lots of rice they process.

The only way this program can be policed is to have a Government inspector placed at every elevator to verify the scale count, verify each dry lot as to degree of moisture removed and verify the loss from cleaning. Then each lot of rice must be followed through the entire milling process and verified as to the type of milling applied, type of separation made and final outturn figures which are derived from automatic scale counts. We all know that this is impractical and impossible.

Of course, the majority of our industry is honest and beyond reproach, and this also holds true for the majority of buyers of milled rice. However, experience in other Government programs has taught us that dishonest acts such as I have mentioned did and will exist. Under other programs we have seen the violators go free and reap a windfall while the honest miller has seen his markets gutted and his profits depleted.

There is one other point I wish to make, Mr. Chairman, and that is with relation to the National Rice Industry Advisory Committee. On February 11, 1965, I received a telegram from Mr. E. A. Jaenke calling a meeting of the advisory committee on February 24, 1965. Now I wish to quote from that telegram :

Purpose of meeting is to consider the operating procedures of a certificate program for rice in accordance with the recommendation in the President's farm message to the Congress.

As prescribed, the meeting was limited to this purpose only, and the committee was not consulted as to other means which might be available in an effort to accomplish the savings requested in the President's message. In other words, the advice of the committee was limited only to the operating procedure of a certificate program without regard to the industry's opinion on the certificate program or any other type of program which might accomplish the announced goals.

Reducing the Government's cost of the agricultural programs is supported by all segments of the American population. However, in my opinion, this should not be done at the expense of certain groups or industries within our society. The future of the American rice industry is promising. If we continue with our present program, the cost to our Government should be reduced each year and, in time, we will be a self-supporting, independent industry needing only limited Government support in order to stabilize our affairs.

Over the years our present program has been modified, amended, and strengthened in an effort to guarantee all segments of the rice industry, producer, miller, and consumer, an opportunity of competing on the same and equal basis. The present program has proven over and over again that as an industry working and cooperating with Government we can, and will, market our product on a competitive basis under a system of free enterprise.

I trust that this committee, in all its wisdom, will see fit to eliminate title III of S. 1702 and S. 2111 allowing our industry the opportunity of continuing to labor within the framework of our current program. We must, and we do, recognize our obligation and responsibility of working together with the Department of Agriculture in an effort to find more practical and better solutions to our current problems. You may be sure that our industry will continue to serve not only the people of our own great and fortunate nation, but the starving masses of the world.

The CHAIRMAN. Mr. Dore, when you met with Mr. Jaenke and the others at the Department, did you present the program that you have mentioned here to the committee?

Mr. DORE. At that particular time we were not afforded that opportunity. We were told that the meeting was limited to this, and that this was the procedure that we would follow.

The CHAIRMAN. What advice did you give them?

Mr. DORE. The only advice we were given was with reference to attempting to administer the certificate program.

The CHAIRMAN. Were you in accord with it?

Mr. DORE. No, sir; there was a formal statement rendered to the minutes.

The CHAIRMAN. By whom?

Mr. DORE. By myself, which was written by counsel, to the fact that this did not recognize it.

The CHAIRMAN. Were you joined in by any members of the Advisory Committee?

Mr. DORE. Yes. As of that date I do not know that then or that anyone since then has ever supported the certificate program.

The CHAIRMAN. They rejected it?

Mr. DORE. Yes, sir.

The CHAIRMAN. Are there any questions?

Who is next?

Mr. BROUSSARD. Senator, our concluding part of our presentation will be handled by Mr. Gaines.

The CHAIRMAN. All right, Mr. Gaines, proceed.

STATEMENT OF J. P. GAINES, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION

Mr. GAINES. Mr. Chairman and members of the committee, I am going to highlight my statement and have my prepared statement inserted into the record.

I want to present some further analysis of the effect of this domestic certificate legislation on the rice industry, possibly a little more than has been brought out heretofore.

The CHAIRMAN. Very well. Your whole statement will be made a part of the record at the conclusion of your remarks.

Mr. GAINES. One of the things that I want to point out is that production increased rapidly up until about 1954, and when we developed a surplus, rice acreage was cut 2 years in a row. We were cut 40 percent in 2 years. No other commodity has ever been found to take this kind of an adjustment.

With interest and leadership of Senator Ellender, the Congress enacted the present legislation which avoided any further cuts.

Now we started from there, and we rebuilt this industry, with heavy development of all commercial markets. In domestic markets and dollar export markets we have had great success.

As other witnesses have pointed out the per capita consumption of rice has been increasing in this country over the past 10 years by a very substantial amount. We are getting an annual per capita consumption increase of about 5 percent.

We are also expanding our dollar export markets for rice at a rapid rate. We had another increase this year of about 15 percent over last year. We started from virtually nothing in the way of dollar export market in 1959 and we are now up to a market that constitutes one-third of our total acreage. Our dollar export market handles one-third of our total acreage which is more acreage than that in all of Louisiana.

I would like particularly to call your attention to the statistics on page 4 of my statement which show, that with this expansion in commercial markets, what we are doing in the rice industry. You will see that we are getting an annual increase in our total production, but at the same time we are getting a declining trend in shipments under Public Law 480.

This shows that the rice industry has got something going which if allowed to continue to work would in itself erode away the cost of the current price program.

We think we have probably reached a peak in the cost of the rice program. The cost of our program this year will be less than it was last year, because we are shipping about 1 million hundredweight less rice into Public Law 480 than we did last year. As you know, Public Law 480 constitutes the big cost of the program. We will probably continue to expand commercial sales in the next year and in years ahead.

In further analysis of the certificate proposal I want particularly to look at the effect of certificate plans on cost to the Federal Treasury. Lowering Treasury costs seems to be the primary driving motive behind this proposal from the standpoint of the administration. Let us take a look and see what this will do to the Federal Treasury.

The Secretary mentioned in his testimony that a certificate plan would cut the cost of the rice program by \$45 to \$50 million. Figures, have been mentioned, for example, that it would enable reduction of price supports to about \$3.60, which I understand is USDA's calculation of the world market. Cutting supports from \$4.50 this year to \$3.60, would save the Federal Treasury immediately about \$39 million on export programs. But then let us look at what will happen from there on.

There is a provision in S. 1702 for supplemental income on the first 1,500 hundredweights of production, which would add about \$9 million to the cost of the program and bring it back down to a possible saving of about \$30 million. But then, as Mr. Goff has pointed out in

his analysis, and this is supported by others who have made an analysis of the impact of this program on the domestic market, we could lose severely in the domestic market and our estimate is—and I think it is conservative—that we could lose at least 5 million hundredweight of domestic business, which is about 25 percent of the domestic use of rice. If we lose this 5 million hundredweight of domestic business, what will we do with this extra rice? There are only two alternatives.

One is to cut the acreage back, which immediately hits the farmer and his income; the other is to ship it to Public Law 480 uses. If this is shipped under Public Law 480, 5 million hundredweight would add another \$40 million to Treasury costs—in my statement it is stated at \$30 million but I figure that I have underestimated the amount. This would add then another \$40 million to the Treasury cost of the rice program, which would completely wipe out any possible Treasury saving under a certificate program.

We think, Senator, that this is precisely what would happen. There will be no Treasury saving but in fact, in my opinion, there is likely to be a cost to the Treasury when all the returns are in on this program. And there would be increased administrative costs that will be involved, plus the pressure, no doubt, that the Department would have to overissue domestic allotment certificates in order to try to maintain farm income.

This briefly, Senator Ellender, is the additional information that I did want to get into the record. The rest of my statement, I think, is self-explanatory.

The CHAIRMAN. As stated, your statement will be put into the record.

(The prepared statement of Mr. Gaines is as follows:)

Senator Ellender and members of the Senate Committee on Agriculture and Forestry, my name is J. P. Gaines. I am executive vice president of the Rice Millers' Association, a nonprofit trade organization of the Nation's rice milling industry. Headquarters of the association are in Washington, D.C., and branch offices are maintained in Brussels, Belgium, and San Juan, Puerto Rico.

I am also a technical representative on the National Rice Advisory Committee to the Secretary of Agriculture.

The Rice Millers' Association was organized in 1899, and is one of the oldest agricultural trade organizations in the U.S.A. It is composed of 36 milling firms located throughout the rice growing areas. Members of the association process 98 percent of all rice produced in the southern United States. The association's members include both independent rice mills and farmer cooperative organizations.

Members of the association package and distribute over 90 percent of the popular brands of rice on the retail shelves in the continental United States.

The Rice Millers' Association is opposed to the legislation for rice that is embodied in title III of S. 1702, as well as the legislation in S. 2111.

To help you understand the position of this association, let me first review some recent history and developments in our industry.

WHAT IS THE SITUATION IN THE RICE INDUSTRY?

During and following World War II, and through the Korean war in early 1950, the rice industry was encouraged to expand production to supply strategic needs. The industry gladly did this.

Under incentives provided, rice production increased rapidly, going from 24 million hundredweight on 1 million acres in 1940, up to 64 million hundredweight production on 2.5 million acres in 1954.

At this stage, political stability developed in the international field, and this, together with increases in rice production abroad, resulted in a surplus of rice developing in this country in 1954.

The immediate response to this surplus was to slash rice acreage drastically.

In 1955, acreage allotments were cut 25 percent. In 1956, allotments were cut another 15 percent, making a total of 40 percent reductions in 2 years.

These drastic acreage cuts gravely hurt many in the rice industry, growers and millers alike. No other commodity was subjected to this kind of treatment, although some commodities were in greater surplus situations than rice. It resulted in a number of rice mills going out of business and all rice mills suffering severely.

There was concern that rice acreage would be cut another 40 percent in 1957, but the Congress, under Senator Ellender's leadership, enacted new legislation for rice which placed a floor on rice acreage.

Under this legislation, the rice industry pulled itself together and started rebuilding. It started a desperate effort to develop commercial markets. The southern rice industry started organizing for development of the domestic market, first on a small and disorganized basis, but by 1959, efforts were consolidated and put on a large scale.

We now have a domestic promotion effort second to none, voluntarily supported by virtually all producers and millers in the Southern States, and it is getting good results. Industry figures indicate our domestic market is growing at the rate of 5 percent per year. According to a survey made in 1962, by the Department of Agriculture, the domestic market through the 5 years from 1957 to 1962, expanded from 5.8 pounds per capita to 7 pounds per capita, a 26-percent increase. I might add that during this time, domestic consumption of other cereal products declined.

In addition to the industrywide program of domestic promotion, advertising, product standardization, recipe development, etc., increased attention has been devoted to research and development of new rice products. This you will note by visiting your local supermarket, and observing the new rice products and products made from rice.

In the same sense of desperation during the mid-1950's, the industry and the Government cast about for ways to develop dollar export markets for rice. There were experiments in various plans and again with the active interest of Senator Ellender, the highly successful payment-in-kind export program was applied to rice.

This program was instituted at about the time Castro came to power in Cuba and robbed us of our only cash export market. We started from virtually nothing in the way of cash dollar export business, but through aggressive merchandising by our rice mills and exporters, we have built since 1959 a cash export market for rice that now stands at 24 million hundredweight in terms of rough rice, representing 33 percent of our total production, or the equivalent of 585,000 acres of rice—more acreage than is planted in all of Louisiana.

Our southern rice millers and exporters have gone to every nook and cranny of the world, and we are now selling our rice in various amounts to over 100 countries. Rice exports are earning over \$100 million annually in hard cash dollars for the United States.

This build up of commercial domestic and export markets for rice over the past 5 years represents a great success story with credit shared by rice growers, rice millers, rice exporters, the Congress, and the Government.

This great success in developing hard-dollar business, both domestic and export, made it possible and desirable for the Department of Agriculture to raise rice acreage in 1962 by 10 percent, to insure sufficient rice to enable continued growth, and at the same time, provide rice for Government needs under Public Law 480.

Even with this increase in acreage allotments and with subsequent increases in production, shipments of rice under Public Law 480 have been steadily declining the past 3 rice market years. Here are the figures on rice production in the United States, and shipments under P.L. 480, for the past 3 years :

Year	Production, rough rice (hundred- weight)	Public Law 480 ship- ments, milled rice (hundred- weight)
1962-63.....	66,072,000	13,761,466
1963-64.....	70,296,000	13,754,238
1964-65.....	73,140,000	13,084,668

With the drop in movement of rice under Public Law 480, funds used in Public Law 480 rice programs have declined.

The figures above show clearly the progress being made by the rice industry in developing commercial markets. We believe this trend will continue if current legislation is maintained, but if the certificate legislation is enacted, this trend will be reversed and the rice industry will be made increasingly dependent on the Public Law 480 program. We are very grateful to Public Law 480 and for what it has done for the rice industry, but is it wise to gear our industry entirely to that program? We don't think so.

Thus, we find in the rice industry the following trends: rapidly increasing commercial sales; reducing Public Law 480 programing; accelerating domestic and export promotion; and a smoothly operating Government program, being efficiently administered by the U.S. Department of Agriculture.

ANALYSIS OF CERTIFICATE PROPOSAL

We want to examine with you the objectives of the proposed certificate legislation and show what we think would be the likely outcome of such legislation:

(1) It will shrink the domestic market for rice. Every user and distributor of rice who will appear before this committee will show that the certificate legislation will sharply reduce their domestic distribution or use of rice. For the brewer users, the baby food manufacturers, the cereal processors, and the canners, rice is not a low-cost food. In most cases, rice is the highest priced alternative commodity available in the market. In most cases, the use of rice is a marginal one for these people, who represent over 30 percent of our domestic market.

Moreover, it will also have a severe impact on consumption of rice by people in the low-income bracket. This is the conclusion of a special study recently made. Results of this study are presented by Mr. Goff, a witness of this association. This as well as other economic studies indicate that the low-income consumer, who makes up over one-half of our domestic market, may reduce consumption of rice as much as one-third, if the price of rice is raised as much as 6 cents per pound.

Adding up available information, it is our estimate and our belief that the domestic market for rice may be cut as much as 5 million hundredweight, or 25 percent, by a domestic certificate plan.

(2) You will learn from this hearing how this legislation will have a special impact on certain States and areas, such as the folks in Puerto Rico and Hawaii. I would like to add that the impact would be just as severe in certain States on the continent, such as Louisiana and South Carolina, which each would have to bear nearly 10 percent of the cost of this program. In fact, the States of the Southeastern United States, mostly low-income consumers, would bear over 40 percent of the total cost of the certificate plan.

(3) A certificate program will not cut the cost of the rice program to the Federal Treasury.

Secretary Freeman, in his testimony before this committee last week, mentioned a possible saving to the Federal Treasury of \$45 to \$50 million. We disagree. In our opinion, this program could wind up costing the Treasury more than the current program.

I want to take you through an analysis of costs under the administration's bill, S. 1702.

The Department of Agriculture has indicated an intention to support rice at about \$3.60 per hundredweight under its certificate program.

The support price this year is \$4.50.

Therefore, the saving to the Federal Treasury will amount to the difference between \$4.50 and \$3.60, or 90 cents per hundredweight, on all rice exported.

The Department estimates production under the certificate program at 73 million hundredweight with the domestic market taking 29 million hundredweight, leaving 44 million hundredweight for export.

Thus, the maximum Treasury savings would amount to 44 million hundredweight times 90 cents per hundredweight or \$39 million.

But the analysis cannot stop here. The administration proposes to provide a supplemental income on the first 1,500 hundredweights of a farmer's production, and this supplement would not be offset by any increase in value of the domestic allotment certificate, since the analysis assumes these certificates will be valued at 100 percent of parity, the maximum in title III.

I understand these supplemental certificates will cost the Treasury \$9 million. This cuts the possible savings to \$30 million.

Now if we do suffer severe reduction of our domestic market, what do we do with this extra 5 million hundredweights of rice? No doubt we will continue to increase our dollar export markets and this increase is expected to be sufficient to absorb annual increases in field yields. It would certainly not be possible, however, to sell enough more rice for cash dollars to make up for a 5-million-hundredweight cut in the domestic market. The only alternative then would be to cut acreage or to increase Public Law 480 programing. If acreage is cut, farm income will be cut. If another 5 million hundredweight of rice is shifted to Public Law 480, it would add \$30 million to Federal Treasury costs.

This would completely nullify all reductions in costs for the Federal Treasury. If ricegrowers are given domestic allotment certificates for more rice than is actually sold in the domestic market, there then would be a greater cost to the Federal Treasury under the certificate program than under the current program.

In reference to S. 2111, it is our conclusion that this bill would increase costs to the Federal Treasury the first year it is in effect, and by the fourth year, it would come out the same place as S. 1702, as analyzed above.

Here is how we reach this conclusion. By reduction of the support price to the world market level (which has been estimated by the Department of Agriculture at \$3.60 per hundredweight), S. 2111 would lower export program costs by \$39 million as explained above.

However, under S. 2111, the Government would issue certificates to growers in the amount of \$84 million (29 million hundredweight domestic allotment times estimated \$2.90 per hundredweight domestic certificate value), and would recover only 25 percent of this certificate cost, thus taking a loss on certificates of \$63 million. This loss on certificates would exceed savings on export programs by \$24 million. Add to this the cost of the small farm provision, and increased administrative costs, and the first year loss under S. 2111 would exceed \$30 million. In subsequent years, the increasing loss of domestic business would make it impossible to recover Treasury losses.

(4) It will not maintain farm income. If the domestic market is reduced substantially, as we think would happen, the domestic allotment to growers will shrink and the average income to growers, inevitably will decline.

CURRENT RICE PROGRAM

The current rice program is said to be costing the Federal Treasury \$180 million per year.

In evaluating the cost of the current program, it is important to understand that movement of rice under Public Law 480 which accounts for 25 percent of the movement of our rice crop, accounts for 70 percent of the total cost of the rice program.

Thus, the cost of the rice program is in essence a cost of the food-for-peace program. As such, it is in reality an obligation that should be borne by all taxpayers rather than one to be borne by the large consumers and users of rice.

As pointed out earlier, movement of rice under Public Law 480 agreements is declining and we thus have a trend in progress which promises to both lower Federal Treasury costs and maintain farm income.

No doubt there is an irreducible limit to which Public Law 480 movement can be lowered because of the strategic service rice provides in the food-for-peace program. However, we repeat, such strategic services should be borne equitably by all taxpayers.

Moreover, Government accounting practices charge all movement under Public Law 480 at a 100-percent loss, but there is recovery of funds under the program and there will be increasing recovery in the future as a result of new provisions recently placed in Public Law 480 by the Congress. The actual current cost of the rice program by our figures is nearer to \$150 million than \$180 million, representing about 3 percent of the cost of Federal farm programs.

Let's examine what we are getting for this \$150 million expenditure.

(1) A healthy economy in the ricegrowing areas, which encompasses over 5 million people in the States of Louisiana, Arkansas, Texas, Mississippi, and California. A successful antipoverty program could be operated in this area at a fraction of that cost. The economic activity generated by the current program may well pay its costs in the income tax payments that are made to the Federal Government.

(2) A successfully operating program; perhaps the only one among the basic commodities which is not beset with surpluses and severe administrative problems.

(3) A program whose costs are in line with costs of other commodity pro-

grams. On a per bushel basis, the rice program is less costly than the wheat program for example, and wheat is operating under a domestic certificate program.

(4) A great strategic service in U.S. foreign relations. Take a look at all of the restless spots of the world and what do you find as the major staple in the diet? Rice, of course. I mean places like Dominican Republic, Cuba, the Congo, and South Vietnam. You also recall the food riots in India the past few months and what were the people rioting for? Rice, of course. We don't have enough rice to begin to supply the clamor for rice in any of these places. You won't have much difficulty in getting anybody in our State Department to acknowledge the great strategic service which rice provides to this country in the general foreign relations program. There is value in this use of rice that may be worth many times the Federal expenditure.

(5) We are also getting an aggressive advancing industry, working hard to develop commercial markets, and achieving great success. The current program provides incentives for this. The certificate program will destroy such incentives.

(6) Ever-increasing interest in rice by all the big domestic food processors and distributors, with ever-increasing funds being spent on research and development of new rice products. A domestic certificate program will destroy this work.

(7) An economical food for consumers that serves to stretch the budget of millions of low-income families.

(8) A program that meets the long-standing objectives of both major political parties.

Summing up, there is a healthy situation in the rice industry. If left alone, our industry can solve its problems and can eventually achieve the reductions in Federal Treasury costs that are being sought by the Budget Bureau.

Thank you for your kind attention.

The CHAIRMAN. We are glad to have had all of you gentlemen here.

This afternoon we will hear from some of the brewers.

Mr. BROUSSARD. On behalf of the Rice Millers' Association, I want to express our appreciation to the committee for its kind attention.

I wish at this time to say that we are particularly grateful to you, sir, for your efforts in maintaining the stability in the industry due in great part to your keen interest, and because of that we have a vital, prospering industry at the present time. I hope that it will continue to be so.

The CHAIRMAN. I will do all that I can to maintain it.

Mr. BROUSSARD. Thank you.

The CHAIRMAN. It will not be my fault if we do not.

Mr. BROUSSARD. We know that.

The CHAIRMAN. Thank you again very much.

Our next witness is Mr. Hurley.

Senator BOGGS. While Mr. Hurley is coming to the witness chair, may I have permission to put into the record a letter expressing the views of the wool people in regard to the wool provisions of the proposal?

The CHAIRMAN. Without objection, it will be made a part of the record.

(The letter referred to appears on p. 600.)

The CHAIRMAN. I have a statement here that I should like to put into the record, from Senator McClellan, of Arkansas, as well as a letter addressed to me by Senator Fulbright, of Arkansas. Both documents will be placed in the record at this point.

(The letter and statements referred to follow:)

U.S. SENATE,
June 24, 1965.

HON. ALLEN J. ELLENDER,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The purpose of this letter is to advise the committee of my personal concern about new legislation for rice, which is proposed in title III of S. 1702. Title III would provide a domestic certificate plan for rice.

Since this legislation was introduced, I have had a great deal of correspondence and numerous visits from representatives of the Arkansas rice industry and not one individual has expressed favor or support for the new plan. The objections of Arkansas rice growers are grounded in their fears of the effect which a certificate program will have on the domestic market for rice and the ultimate effect it will have on the income of farmers.

I am told that a domestic certificate program would raise the domestic price for rice by an average of 5 cents per pound. This amounts to 25 to 50 per cent of the current retail price and would be a considerable additional cost burden to place on a basic food. Well-informed people in the rice industry advise me that such an increase in the domestic price could well result in a reduction of as much as 25 percent in domestic consumption of rice. If that happened, it would give the rice industry the same surplus problems that cotton, wheat, and feed grains have had for years. The end result would be the necessity for larger Government expenditures to manage this surplus and maintain farm income, or another severe acreage cut for ricegrowers. Neither of such eventualities is pleasant to contemplate.

The rice industry was put through a severe readjustment in the 1950's, when rice acreage was cut 40 percent. I don't believe any commodity before or since that time has been forced to undergo such a severe adjustment. Since experiencing this cut in acreage, the industry has undertaken vigorous market development programs and I understand their efforts are showing results. Domestic consumption is said to be increasing at the rate of 5 percent per year, and dollar export sales of rice are growing each year. Such exports are up this year by 10 to 15 percent.

We have a smoothly working rice program. It has maintained farm income and has facilitated marketing of the rice crop year after year. In my opinion, it would be unwise to tamper with such a successful program. I recommend that this committee disapprove the proposal for a domestic certificate plan for rice.

I respectfully request that this letter be made a part of the record of hearings on S. 1702.

Sincerely yours,

J. W. FULBRIGHT.

STATEMENT BY THE HONORABLE JOHN L. MCCLELLAN, A SENATOR FROM THE STATE
OF ARKANSAS

Mr. Chairman and members of the committee, I appreciate having this opportunity to express my opposition to title III of S. 1702, the farm bill. I might say at the outset that I usually do not burden the distinguished members of this committee with my opinions on agricultural problems because I have such confidence in their fairness and good judgment on these matters. When an issue arises in the area of agricultural legislation, the first person I always go to for advice and information is the distinguished chairman of this committee, Senator Ellender. In this case, however, the certificate plan proposed in title III causes me such concern I feel that I must point out some of the reasons why I think it should not be included in farm legislation reported out by this committee.

Rice has experienced a great increase in production coupled with an equally great increase in domestic and international consumption. Today there is virtually no surplus of rice produced in America. It has become a popular food commodity in this country. It is used by an increasing number of Americans for a variety of food products. A considerable amount of the progress which has been accomplished has resulted from the support and assistance of the Department of Agriculture. The American farmers obtained approximately \$360 million from rice in 1964. In my own State of Arkansas, rice accounts for about 15 percent of total farm receipts from crops. In short, Mr. Chairman, the rice

industry represents one of the real success stories in American agriculture. The program is working successfully. Indeed, it may be the most successful agricultural commodity program which we have.

Why then has the administration proposed that we change existing law in the face of such outstanding success? The program envisioned in title III seems to be based on the premise that it will cut the cost of the rice program to the Federal Treasury. I certainly do not quarrel with any effort to cut the cost of Government, but I wonder if the savings will be as great as the Department of Agriculture has suggested. Other witnesses have done an effective job of challenging the assumptions on which the Department's cost figures are based, and I shall not attempt to cover the same ground again. Suffice it to say, if the hoped for savings would not actually result, then the reason for enacting a certificate program disappears.

Aside from considerations of cost, I am convinced that a certificate plan would create several significant problems. It would place a burden on the poor. Several witnesses scheduled to appear before this committee will point out that rice is a staple in the diet of an unduly large number of families with a total income of under \$3,000 per year. If the administration and the Congress want to conduct a war on poverty, it is difficult to understand how a certificate program for rice can be justified. For I am convinced that such a plan would result in a price increase for rice which would fall most heavily upon those who could least afford it.

Rice, as compared to corn, wheat, and oats, is already expensive. This cost factor is the primary reason why rice products do not enjoy a higher share of the market for ready-to-eat cereals. It is logical to conclude that the rice industry's share of the market would decrease if the cost were higher. Moreover, I understand that the users and suppliers of brewers rice believe that title III would result in a prohibitive cost of rice that is now being used for brewing purposes. These examples could be multiplied. The net effect then may be a decreasing demand for the product because of an increase in price. Such a decrease in demand in the face of the same or higher levels of production would result in a growing surplus.

Many believe that title III would result in a sacrifice of the rice industry's domestic market in favor of its export markets, largely the food for peace program under Public Law 480. Since history indicates that our domestic market is more stable and secure than our foreign markets, I am very skeptical about the desirability of the sacrifice that would be called for under title III.

In sum, I am afraid that the enactment of the rice program provided for in title III would eliminate a workable and successful program in favor of one that may very well create the type of problems that we are now trying to cope with in regard to other agricultural commodities. In effect, the Congress would be placing an excise tax on rice at the same time that it is eliminating such a tax on many other commodities. It would be a serious blow to many people and would, in my judgment, cause us many headaches in the years to come. I urge the members of this committee to reject this proposal in the interests of the people of my State, the people of your State, and the people of the entire Nation.

The CHAIRMAN. We will now hear from you, Mr. Hurley.

**STATEMENTS OF JOHN F. HURLEY, EXECUTIVE VICE PRESIDENT,
AND FREDERICK FURTH, KELLOGG CO., BATTLE CREEK, MICH.**

Mr. HURLEY. Mr. Chairman and members of the committee, I would like to have my written statement made a part of the record at this point and to highlight it.

The CHAIRMAN. Without objection that will be done.

(Mr. Hurley's prepared statement is as follows:)

Mr. Chairman and members of the committee, my name is John F. Hurley. I am executive vice president of the Kellogg Co. With me is Frederick Furth, a Kellogg Co. attorney. Our company manufactures a variety of 20 ready-to-eat cereal foods.

We have four plants in the United States located in Battle Creek, Mich., Memphis, Tenn., Omaha, Nebr., and San Leandro, Calif.

I am pleased to have this opportunity to share with this committee some thoughts about title III of the omnibus farm bill.

I will outline briefly—

(1) the importance of rice in the general diet, and rice in breakfast foods, and

(2) the possible effects an increase in the price of rice may have on the ready-to-eat cereal industry, and related industries.

During the last 12 months, nearly 1 billion, 200 million pounds of ready-to-eat cereal foods made from corn, wheat, rice, and oats were sold through grocery stores in the United States.

In addition, several hundred million pounds were used in institutions and restaurants and by the armed services.

Each of these four common grains have nutritional and taste qualities, plus the general acceptance, that make them very suitable and desirable bases for ready-to-eat cereals. As you are aware, these grains are the major source of iron and B vitamins in the American diet.

Leading nutritionists agree that each of these four grains provide unique and special benefits, and report that diets which include the regular use of all four grains may be superior to those restricted to any one grain.

Here are some of the special benefits of rice:

(1) Enriched rice is a carbohydrate source which has significant levels of iron and B vitamins.

(2) The protein in rice is superior in quality to protein in any other common grain source.

(3) Rice is employed very well in special dietary situations—

(a) Because milled rice is virtually sodium-free, it is admirably suited as a component for special diets required by individuals suffering from high blood pressure.

(b) Because rice is well known as a nonallergenic grain, it is normally the first cereal allowed babies. Many babies allergic to wheat and other grains can tolerate rice.

(c) Because rice is gluten free, rice and rice-based products are suitable foods for infants suffering from celiac disease and for adults with nontropical sprue.

(d) Because of the low sodium and low fiber composition of rice, it is well suited to many diets for the elderly.

I think you'll agree that rice plays an important part in providing our people with both regular and very special dietary needs.

And now, I'd like to talk about rice as it is used in the products of our industry.

Our research people like to work with rice as a breakfast food ingredient. They tell us that in addition to its special nutritional qualities, this grain also has unique physical and chemical qualities not possessed in corn, wheat, or oats.

The end product from a properly processed rice formula is generally more crisp and yet more tender in the mouth than products from any other grain source. When placed in milk, most rice products are quite impervious to moisture and provide more oral satisfaction without the hard or tough quality common to some cereals of other grain origin.

Because rice is a very bland tasting grain, as distinguished from corn, wheat and oats which are strongly flavored, rice products enjoy a high measure of acceptance among people who find strongly flavored food objectionable at the morning meal.

The Kellogg Co. has great respect for this fine grain—you probably are aware that it is the largest field crop in the world—and that there are many good reasons for its being the basic food of more than one-half the world's population.

For the reasons stated above, we hope we can continue to market new rice products and continue to build upon the volume of existing rice products.

There is, however, a problem. Rice, as compared to corn, wheat, and oats, is already expensive.

Using an index for the cost per hundred pounds and assigning a value of 100 to corn grits, the least expensive grain, the following price comparison results:

Corn grits	100
Wheat	105
Oat flour	140
Rice	250

On this basis, you can see that rice already costs more than twice as much as corn grits or wheat. The high cost of rice is the primary reason why the rice products of our industry do not enjoy a higher share of the market for ready-to-eat cereals. Currently only 14 percent of the ready-to-eat cereals available have rice as a basic ingredient.

Now, let us look at a breakdown of tonnage sales for the entire industry during the last 12 months:

Cereals processed from—	Percent
Wheat_____	39
Corn_____	26
Oats_____	19
Rice_____	14
Grain mixtures_____	2

The four leading ready-to-eat cereals now on the market are:

Product:	Base
Kellogg's Corn Flakes_____	Corn grits.
General Mills' Cheerios_____	Oat flour.
Kellogg's Rice Krispies_____	Rice.
General Mills' Wheaties_____	Wheat.

In comparing the price per ounce of these four cereals, I have selected the largest package size of each product available. The size and average price per ounce to the consumer are:

	Weight in ounces	Price per ounce
Kellogg's Corn Flakes_____	18	0.0216
General Mills' Wheaties_____	18	.0250
General Mills' Cheerios_____	15	.0303
Kellogg's Rice Krispies_____	13	.0331

Again, using the price per ounce as an index and assigning Corn Flakes a value of 100, the picture looks like this:

Kellogg's Corn Flakes_____	100
General Mills' Wheaties_____	116
General Mills' Cheerios_____	139
Kellogg's Rice Krispies_____	153

Now what does that mean to those of us in the cereal industry and to the consumer shopping for cereal?

Note that in the marketplace under today's circumstances, the leading rice cereal is at a serious disadvantage. The price per ounce is more than 50 percent higher than the corn and wheat cereals. Note also that a package of rice cereal selling close to the same price per package as those for corn or wheat products is smaller. This lessens its appeal.

We have asked our rice suppliers to estimate the probable increase in the price of rice the Kellogg Co. may have to pay should the legislation we are discussing be enacted.

The consensus indicated 5 cents per pound. I have used this figure for the purposes of the next illustration.

A 5-cent-per-pound increase in the price of rice would put us in this position. We could increase the price of the 13-ounce package allowing the same profit percentage margins for our company and the wholesaler and retailer. But this 13-ounce rice package would then cost 8 to 10 cents more than the 18-ounce wheat package and the 15-ounce oat package and 13 to 15 cents more than the 18-ounce Corn Flake package.

As an alternative, though a remote and undesirable choice, we could reduce the weight and size of our largest Rice Krispie package to keep the unit price more competitive with these other three cereal leaders with this result:

Kellogg's Corn Flakes_____	100
General Mills' Wheaties_____	116
General Mills' Cheerios_____	139
Kellogg's Rice Krispies_____	199

Because of the higher cost of the raw ingredient, rice is placed at a more serious disadvantage than it is now. The package size is no longer remotely competitive to the other three packages—and the price per ounce is now close to double the price of Corn Flakes and significantly higher than the other two cereals.

Gentlemen, I have spent my entire working career in the food business. From first-hand experience I can tell you that the volume of sales of ready-to-eat cereals made from rice will be curtailed drastically if the competitive relationship of these four grains is disturbed in the manner this bill directs. I have tried to demonstrate with one rice product that rice products generally are already in a disadvantageous competitive position.

In fact, manufacturers are already bypassing rice as a cereal base because of the difficulty in marketing the products competitively. Of the last 20 cereals introduced nationally, only 2 contain any rice. One of these contains approximately 5 percent. The other product is a low-volume specialty product. The passage of this bill would virtually eliminate rice from the research plans of all companies in our industry.

The Kellogg Co. has four products utilizing rice as the main ingredient. They account for approximately 11 percent of the ready-to-eat cereal market and make the Kellogg Co. the largest processor of rice in the United States.

This level of success has been achieved through long and costly research, careful introductory planning, years of house-to-house sampling, and tens of millions of dollars in investments in building and equipment and expense in building valuable consumer franchises.

These products are now profitable and important contributors to the success of our company.

Because of some of the unique chemical qualities of rice, in addition to its nutritive values, a crisp rice cereal product is used as an important ingredient in many popular candy bars, confections, and bakery products. Our company, and other cereal manufacturers, supply the crisp rice for this use. It is generally sold on a cost-per-pound basis.

Unfortunately, marketing a 5-cent candy bar does not allow for price changes of this magnitude in a principal ingredient. Yet for many reasons, including the large volume of these products that are sold through vending machines, it's important that the price remain at 5 cents.

I have a telegram from Mr. Hans Wolfisberg, president of the Nestle Co. He says:

"We have learned with unpleasant surprise that the proposed \$2.90 per hundredweight certificate on raw rice will substantially increase the cost of crisp rice used in the manufacture of the very popular and wholesome Nestle's crunch chocolate bar. This increased raw material cost puts this type chocolate bar product on an unfavorable competitive basis. Nestle is the largest user of crisp rice in the confectionery industry and our raw material cost would be increased by hundreds of thousands of dollars. Nestle's crunch chocolate is a very popular ingredient of the school lunch bag, is a preferred pick-me-up of truck drivers, is very useful in factory lunches, etc. Thus the proposed penalty on this popular food item would not appear to be either desirable or necessary since it would hurt those most who can afford it least, i.e., schoolchildren and factory workers."

And a telegram from Mr. S. H. Hinkle, president of the Hershey Chocolate Corp. It reads:

"Hershey Chocolate Corp. vigorously opposes provisions of title III of the omnibus farm bill which substantially increases cost of Rice Krispies which we purchase in large quantities. Such increase would be major deterrent in contemplated size enlargements of chocolate bars containing crisped rice and would inevitably result in detriment to the consumers of this item. Our State Department urges us to increase consumption of chocolate to aid overseas producers in friendly countries. It is shortsighted to prevent us from doing so if proposed legislation becomes effective."

These two products, and many others in the field, have taken many years to introduce and develop to the enviable position they occupy in that industry.

I choose to believe, as a supporter of the bulk of my Government's policies, that the proponents of this bill did not envisage in their entirety the problems, the unfairness and the potential serious wrongs that will result from the passage of the rice portion of this bill.

I sincerely seek the support of this committee in the common effort of all segments of the rice industry to have title III of this proposed bill deleted.

Thank you.

Mr. HURLEY. I will try to give a shorter version.

I want to thank you for this opportunity to share with this committee some thoughts about title III of the omnibus farm bill.

I would like to include a few facts about the importance of rice as a basic commodity, and its desirability as an ingredient in processed foods, and a few illustrations of the possible effects an increase in the domestic price of rice may have on the ready-to-eat cereal industry and related industries.

During the last 12 months nearly 1,500 million pounds of ready-to-eat cereals made from corn, wheat, rice, and oats were sold in the United States. Each of these four common grains have nutritional qualities and levels of taste and general acceptance that make them very suitable and desirable bases for ready-to-eat cereals, and as you are aware, are the major source of iron and B vitamins in the American diet.

Leading nutritionists agree that each of these four grains provide unique and special benefits, and report diets which include the regular use of all four grains may be superior to those restricted to any one grain.

I would like to list some of the special benefits of rice:

(1) Enriched rice is a good source of carbohydrates providing significant levels of iron and vitamins.

(2) The protein found in rice is superior in quality to the protein found in any other common grain;

(3) Rice can be employed to good advantage in special dietary situations as illustrated by the following examples:

First, because milled rice is virtually sodium free, it is admirably suited for the special diets required by those suffering from high blood pressure.

Second, because rice is easily assimilated, it is normally the first cereal allowed to babies. Many children and adults allergic to wheat and other grains can tolerate rice.

And third, because rice and rice base products are suitable foods for infants suffering from celiac disease and for adults with non-tropical sprue they are often included in gluten-free diets.

And, fourth, because of the low sodium and low fiber composition of rice, it is well suited to many diets for the elderly.

Time does not permit a longer discussion along this vein, but at this point I am certain that you will agree that rice does play an important role in providing a form of nutrition for people with both regular and special dietary needs. I certainly hope you will agree that rice is not a luxury item and that there is nothing frivolous or harmful about rice which could ever warrant the levying of a tax to restrict its use.

I would now like to talk about rice as it is used in the products of our industry.

Our research people like to work with rice as a breakfast food ingredient for they tell us that in addition to its special nutritional qualities, this grain also has unique physical and chemical qualities not possessed in corn, wheat, or oats.

The end product from a properly processed rice formula is generally more crisp and yet more tender in the mouth than products from any other grain source.

Rice is a very bland tasting grain as distinguished from corn, wheat, and oats, which are strongly flavored, and rice products enjoy a high measure of acceptance among people who find strongly flavored food objectionable at the morning meal.

The point that I would like to make is that the Kellogg Co. has great respect for this fine grain. You probably are aware that it is the largest field crop in the world and that there are many good reasons for its being the basic food of more than one-half the world's population.

For these and other reasons, our company hopes to market new rice products and continue to build up the volume of its current line of rice products. There is, however, a problem. Rice, in comparison with corn, wheat, and oats is already expensive.

Using an index for the cost per hundredweight and assigning a value of 100 to corn grits, the least expensive of the four most popular grains, the following price comparison can be made. If the index is 100 on corn, wheat would be 105, oats is 140, and rice 250.

On this basis you can see that rice already costs more than twice as much as corn grits or wheat. The high cost of rice is the primary reason why the rice products of our industry do not enjoy a higher share of the market. Currently only 14 percent of the ready-to-eat cereals available have rice as a basic ingredient.

The four leading ready-to-eat cereals now on the market are: Kellogg's Cornflakes, General Mills' Cheerios, Kellogg's Rice Krispies, and General Mills' Wheaties.

In comparing the price per ounce of these cereals, I have selected the largest package sizes available. This is the result of that comparison: Using a price per ounce as an index of 100, and assigning cornflakes the value of 100, this is the result which we get. Kellogg's Cornflakes, 100, Wheaties, 16 percent more expensive per ounce, General Mills' Cheerios are 30 percent more expensive per ounce; and Rice Krispies, the leading rice cereal in the country, is 53 percent more expensive.

It is obvious, therefore, that the leading rice cereal is already at a serious disadvantage. The price per ounce is approximately 50 percent higher than that of comparable corn and wheat cereals. Note that a package of rice cereal selling close to the same price per package as those for corn or wheat products is smaller. This also lessens its appeal.

We have asked our rice supplier to estimate how much more the Kellogg Co. would have to pay for rice if this bill were passed. They have indicated that the increase would approximate 5 cents per pound.

Now, a 5-cents-per-pound increase in rice would put us in this position with Rice Krispies. We could increase the price of the 13-ounce package and, incidentally, comparable Corn Flakes package is 16 ounces, Wheaties 18 ounces, and the oat cereal Cheerios is 15 ounces. Presently, all four of these cereals sell within 2 or 3 cents, or 3 to 5 cents of each other, rice being among the more expensive, even though the box is smaller. And allowing the current margins to the company, the wholesalers and the retailers, with the following results, the 13-ounce Rice Krispies package would then cost 8 to 10 cents more than the 18-ounce Wheaties package and the 15-ounce Cheerios package and 13 cents to 15 cents more than the 18-ounce Corn Flakes package.

There is one other less desirable and more remote alternative. We could reduce the weight and the size of the Rice Krispies package to keep the unit price closer in line with the other cereals.

This is what would happen in that situation. Because of the higher cost of the raw ingredient, if the bill goes through, the rice product would be at a greater disadvantage than it is now. The size of the package would have to be even less competitive and the price per ounce would be close to double the price of the leading corn product, and considerably higher than the other two products in the comparison.

Gentlemen, a representative from the Department of Agriculture has indicated that the demand for rice is inelastic. I have devoted my entire working career to the sale of food products. And from firsthand experience I can tell you that the volume of rice product sales will be drastically curtailed if the competitive relationship of grain prices is disturbed in the manner that this bill directs.

The Kellogg Co. currently processes four rice base products. These products account for approximately 11 percent of all ready-to-eat cereal sales and make the Kellogg Co. the largest processor of rice in the United States.

Our level of success has been achieved through costly research, careful product introduction, years of house-to-house sampling, the major reinvestment of earnings in new buildings and equipment, and the proper expenditure of money and effort required to build lasting consumer franchises.

I should like to mention that most cereal processors are bypassing rice as a cereal base largely because of difficulties encountered in marketing rice products on a competitive basis with wheat, corn, or oat products. Of the 20 cereals most recently introduced on a national basis by members of the cereal industry, only two contain rice. One of them is a low volume specialty product. The other has only a small percent of rice.

The passage of this bill could virtually eliminate rice from the research plans of the major companies in our industry.

Our company and other cereal processors supply crisp rice to other food processors for use in candy bars and confections. Generally, crisp rice is sold on a cost per pound basis. These are some of the examples.

Unfortunately, the economics of marketing a 5-cent candy bar do not permit price changes of great magnitude when it comes to buying the principal product ingredients. The sale of a large volume of these products by means of vending machines makes it more or less mandatory to maintain the 5-cent price.

I have with me telegrams from various people. Mr. Furth will read them.

Mr. FURTH. Here is a telegram from S. H. Hinkle, who is president of the Hershey Chocolate Co. and it reads:

Hershey Chocolate Corp. vigorously opposes provisions of title III of the omnibus farm bill which substantially increases cost of Rice Krispies which we purchase in large quantities. Such increase would be major deterrent to contemplated size enlargements of chocolate bars containing crisped rice and would inevitably result in detriment to the consumers of this item. Our State Department urges us to increase consumption of chocolate to aid oversea producers in friendly countries. It is shortsighted to prevent us from doing so if proposed legislation become effective.

Another telegram is from Mr. Hans Wolflisberg, who is president of the Nestle Co. He says:

We have learned with unpleasant surprise that the proposed \$2.90 per hundredweight certificate on raw rice will substantially increase the cost of crisp rice used in the manufacture of the very popular and wholesome Nestle's Crunch chocolate bar. This increased raw material cost puts this type chocolate bar product on an unfavorable competitive basis. Nestle is the largest user of crisp rice in the confectionery industry and our raw material costs would be increased by hundreds of thousands of dollars. Nestle's Crunch chocolate is a very popular ingredient of the school lunch bag, is a preferred pick-me-up of truckdrivers, is very useful in factory lunches, et cetera. Thus the proposed penalty on this popular food item would not appear to be either desirable or necessary since it would hurt those most who can afford it least, that is, school-children and factory workers.

Letters are being sent or have already been sent directly to this committee from General Mills, General Foods, Quaker Oats, Ralston, Purina, National Biscuit Co., and Grocery Store Products. I would like to have those letters entered at this point into the record.

The CHAIRMAN. Without objection, that will be done.

(The letters referred to follow:)

ST. LOUIS, Mo., June 22, 1965.

HON. ALLEN J. ELLENDER,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR ELLENDER: Our grocery products division and other interested departments in the Ralston Purina Co. have certainly studied title III of the omnibus bill 7097, and we believe this bill, which establishes a processing tax, is not in the best interest of any segment of agriculture or the consumer. The increased cost of rice will tend to restrict the sale of rice, through processed rice products, and this is not good for the farmer who raises rice as it will reduce the consumption of this food.

We have had an opportunity to read the testimony of Mr. John Hurley of the Special Rice Committee, which is to be given before the committee, and we heartily support and approve his statements.

We cannot be in favor of a program which is not in the best interest of the farmer and very bad for the consumer.

We will appreciate having this letter entered in record.

Yours very truly,

J. W. HOGAN,
Manager, Grain, Grain Products, and Merchandising Department,
Ralston Purina Co.

NEW YORK, N.Y., June 1, 1965.

HON. ALLEN J. ELLENDER,
Senate Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR ELLENDER: National Biscuit Co. would like to have its concern about title III of S. 1702 added to the record of the hearings on that bill.

Title III, if enacted, would extend the domestic marketing certificate plan to rice and increase the cost of rice used domestically by 5 or more cents per pound.

We have read the testimony of Mr. John Hurley of the Kellogg Co. before your committee regarding the adverse effect that a 5-cent-per-pound increase in the cost of rice would have on rice cereal products and are in full agreement with it.

At the present time, we produce two cold, ready-to-eat breakfast cereals in which rice is the principal ingredient. A 5-cent-per-pound increase in the cost of rice would have the effect of increasing the retail prices of these products by about 15 percent—4 or 5 cents per package. We are sure that such an increase would drastically curtail the consumption of these products and, to the extent that happened, domestic consumption of rice would be decreased.

It is our sincere opinion that title III of S. 1072 is not in the best interest of the rice industry, and we respectfully urge Congress not to enact it.

Sincerely yours,

C. E. LAIR,
Senior Vice President,
National Biscuit Co.

Mr. FURTH. With the chairman's permission I should like to read just one letter. It is from General Foods. This is on the letterhead of General Foods Corp., dated June 17, 1965, and is addressed to the chairman of this committee, the Honorable Allen J. Ellender. It reads as follows:

General Foods Corp., Post Division, a member of the National Rice Users Conference, manufactures and distributes nationally a line of ready-to-eat breakfast cereals, including a rice cereal, in the production of which substantial quantities of rice are used.

During recent years we have participated in efforts to increase the use of rice cereals. It is our considered judgment that the proposal to issue certificates for a rice program is not in the best interests of the rice industry and that the price effects that would result from a certificate program would have very serious negative effects on the sale of rice cereals.

We, therefore, respectfully urge that your committee not support certificate proposals for rice.

The letter is signed by Mr. M. C. Baker, vice president.

Mr. HURLEY. I choose to believe, as a supporter of the bulk of my Government's policies, that the proponents of this bill did not envisage in their entirety the problems, the unfairness, and the potential serious wrongs that will result from the passage of the rice portion of this bill. I have come before you hoping to assist you in your conscientious effort to make certain that the right kind of legislation is enacted for the good of the Nation.

I sincerely seek the support this committee in the common effort of all segments of the rice industry to have title III of this proposed bill deleted.

I thank you.

The CHAIRMAN. Thank you very much.

Are there any questions?

I simply want to remark that we have a corn program, as Senator Miller knows, the burden of which is carried by the Government. There a subsidy is paid to assist the farmers, but in the case of rice, they want the consumer to carry that burden. That is what makes that different. I am sure that the members of this committee will not go for that. In fact, I hope that they do not.

The committee will stand in recess now until 2 o'clock this afternoon.

(Whereupon, at 12:30 p.m. the committee recessed to reconvene at 2 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. All right, the committee will please come to order.

Mr. Gonzalez-Suarez, will you come forward, please? Have a seat, sir.

STATEMENT OF OSCAR GONZALEZ-SUAREZ, NATIONAL RICE USERS CONFERENCE, NEW YORK, N.Y.

Mr. GONZALEZ-SUAREZ. Mr. Chairman, and members of the committee, my name is Oscar Gonzalez-Suarez. I was born in Puerto Rico but I now live in the Borough of the Bronx in the city of New York.

As a representative of the some 200,000 families of Puerto Rican

origin now living in the United States, I have come here today to plead with you not to place a manufacturer's excise tax on rice which will raise the price of this staple item sharply. It is quite all right for Government officials to talk about averages.

Let me talk about facts, not statistical averages. It has been well said that a grown man can drown in a swimming pool with an average depth of 2 feet if he is at the 8-foot end of the pool. We of Puerto Rican origin, do not consume a 6-pound-per-capita average; we consume about 140 pounds per person per year. Now, a 6-cent-per-pound increase in the price of rice is about \$8 per year per person, or \$40 per family of five.

There is much talk in my section of the Bronx about this because rice is such a staple in our diet. It has to be, for about one out of every three families of Puerto Rican origin has a total income of under \$3,000. We cannot afford the more expensive foods, yet. We work hard. We are not afraid of work. Right now, however, we look upon rice as a staple food.

My friends and neighbors ask me about the President's war on poverty. I tell them about the great programs being developed to retrain people, improve education, and provide jobs. Then they ask me how this increased price for rice which falls most heavily on the poor helps in the war on poverty. I must answer in all honesty that it takes from the poor who have so little to give.

It seems to me that if the Government decides that the ricegrower needs help, the money should come from the U.S. Treasury, not mostly from the lowest income group.

My friends and neighbors are mostly in that group of families who spend about 30 percent of their income on food. Keeping our food expenses low is a tribute to the ability of our women, who shop carefully and do not waste. To this expense must be added rent, electricity, gas, clothing, medical care, and other essentials. We cannot pay more for rice without taking from some other necessity. Our budgets do not have any ability to be stretched.

My friends and neighbors ask me about the cut in excise taxes on furs, jewelry, and so forth. The newspapers say that this will amount to \$4.7 billion. Honestly, how much direct benefit do you think the poor will get out of this reduction or elimination of taxes on luxuries? Do you honestly believe that I, or you, can explain to my friends and neighbors why they should pay more for rice under a manufacturer's excise tax, at the same time you are reducing the excise tax on furs and jewelry?

On June 8, 1965, the Secretary of the Treasury, the Honorable Henry H. Fowler, in speaking before the Senate Finance Committee, said:

Excise taxes, unlike income taxes, impose burdens on those whose income is below the level of their personal exemptions and deductions. The present excise tax reduction program will lighten the burden of regressive taxation on low- and middle-income people. A great deal of the revenue involved comes from extremely regressive taxes, which are a heavy burden on low incomes.

I am not an expert on financial matters, but it seems to me that the same reasoning which justifies the elimination of the excise taxes on furs and jewelry would argue for not placing a tax on the poor man's staple.

This proposed rice tax is a serious blow to my people. Please do not make them bear this additional burden. Their daily burdens are already sufficient.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, sir. A very good statement.

Mr. Hardee?

Mr. HARDEE. Mr. Chairman, may I call Mr. Wittler up, we have statements that we have prepared together so we can present them together probably better.

The CHAIRMAN. As many as you want.

All right. Have a seat.

All right, Mr. Wittler.

STATEMENT OF GENE WITTLER, CHAIRMAN, RICE ADVISORY COMMITTEE, LOUISIANA FARM BUREAU FEDERATION, LAKE CHARLES, LA.

Mr. WITTLER. My name is Gene Wittler. I am a rice producer from Lake Charles, La., and reside at Route 3, Box 428, Lake Charles, La. I appear before you today as chairman of the Louisiana Farm Bureau Federation Rice Advisory Committee and an official representative of Louisiana Farm Bureau Federation, an organization of 22,500 farm families domiciled in the State of Louisiana.

I appreciate very much the opportunity to appear before you to give you our views with respect to the proposed legislation regarding rice.

At the outset, I would like to say, gentlemen, that southwest Louisiana is an area of the State that is greatly dependent on agriculture for its income. Rice is the only major cash crop for a number of farmers in our area. There is not a large number of crops that can be grown profitably in southwest Louisiana, so the economy of the entire area is closely tied to the rice industry.

The cost-price squeeze faced by the Louisiana rice farmer has had a definite effect on his net income. To illustrate, I would like to have the committee review the following table that shows the estimated costs and returns per acre for the typical rice farmer of Louisiana.

(The table referred to follows:)

TABLE 1.—Estimated costs and returns per acre for a 100- to 150-acre rice farm, water planted in 1964¹

	Unit	Quantity	R/A	Value
Income: Grain.....	Barrel.....	² 20.40		³ \$7.50 ² 153.00
Expenses:				
Seed.....	do.....	130.00	0.08	10.40
Seed treatment.....	Per acre.....		⁴ 1.40	1.40
Planting.....	Pound.....	130.00	.01	1.30
Fertilizer:				
Potassium.....	do.....	30.00	.05	1.50
Phosphorus.....	do.....	40.00	.08	3.20
Nitrogen.....	do.....	40.00	.13	5.20
(Fertilizer applied).....	Acre.....	1.00		2.42
Herbicide control.....	Per acre.....	1.00	2.25	2.25
Tractor operation.....	Hour.....	2.92		4.26
Equipment operation.....	do.....	2.92		1.86
Truck operation (1½ ton).....	Mile.....	36.90	.22	8.12
Combine operation.....	Barrel.....	⁵ 22.44	.65	14.59
20-percent water rent.....	do.....	4.08		30.60
20-percent land rent.....	do.....	4.08		30.60
Drying.....	do.....	⁵ 22.44	.50	11.22
Labor.....	Hour.....	11.00	.96	10.56
Propanil.....	Pound.....	1.00	4.17	4.17
Insecticides ⁶	do.....			.83
Financing ⁷				2.25
Total specified expenses.....				146.26
Total returns per acre.....				153.00
Total expenses per acre.....				146.26
Return to management.....				6.74

¹ Estimates of costs and returns on 100- to 150-acre Louisiana rice farm made by Louisiana Farm Bureau, LSU Agricultural Extension Service, and LSU Agricultural Economics Department.
² Dry weight.
³ Actual price received by farmer for August and September 1964.
⁴ Per acre.
⁵ Green weight.
⁶ It is estimated that the use of propanil and insecticides is necessary one-third per cent of the time to attain the average yield of 20.4 barrels (dry weight).
⁷ Financing production costs at 6 percent for 6-month period.

Mr. WITTLER. I think I will call to your attention, Senator, if you will, on the next page to the footnotes and as to the source of this table and so on and I think you have a lot of respect for the people from whence this came. This is the Louisiana Farm Bureau and LSU Extension Service and LSU Agricultural Economics Department who sat down and we spent the better part of a day concocting this table, and I was so glad to hear Mr. Blair this morning state practically the same figures.

If you will notice on the second page we arrive at a cost of \$146.26 per acre, and a return of \$153. This left us with a 6.74 acre net.

The CHAIRMAN. You mean \$6.74?

Mr. WITTLER. Right; yes, sir.

I would say, Senator, that these are as true as we could get them with the assistance we had. We spent a lot of time on these. If you want to go back to the first page and see the various things I have listed, such as equipment and combine operation, and water rent and land rent, we estimated that 60 percent of these people from whence these statistics came were tenant farmers who pay 20 percent for water and for land, which is one of the things we included.

So I think looking at this table you can see the financial position this puts us in.

We even included in here the financing costs at 6 percent for 6 months or approximately the period you would have to borrow money to finance a rice crop, and I might say that this recent cut in support price has gotten finances to where they are almost impossible now, and I don't know what will come of this new program if it is carried out.

This is approximately, of course, barrels to you, Senator, these people understand, Senator, this is about 33 hundredweight, approximately.

I call to the attention of the committee that this is an example of a tenant farmer. His return to management is \$6.74 per acre based on the price received by Louisiana farmers in 1964 for their rice crop, and we thought this 7.50 per barrel was just as good an average as we could come up with from what figures we could gather at the time.

I think this committee will agree that this represents a low return for any business, including agriculture.

In an attempt to solve the problems of the rice farmer, Senate bill 1702 has been introduced for your consideration. Let me review with you briefly the provisions of title III of this bill and attempt to evaluate the effect on the Louisiana rice industry.

We see in the bill a provision that would set the national acreage allotment at an acreage required to produce not less than 60 million hundredweights instead of the fixed acreage of 1,652,596 acres contained in the present law. It is my understanding that it would take approximately 1.4 million acres to produce 60 million hundredweights. This would result in an acreage cut to the rice producer of Louisiana of approximately 25 percent. We have no way of knowing what determination the Secretary of Agriculture would make with respect to distributing the reduced acreage allotment to the State and counties, and farms or to producers.

If each State's allotment is determined on the basis of production as is the national acreage allotment, there can be a very substantial shift of acreage between States which would result in some States taking another cut in acreage.

The economy of the rice area and the income of the individual Louisiana rice producer is at the present time geared to 522,635 acres, and any reduction in this acreage would seriously affect each and every farmer, as well as agri-business. You can see from table I that any reduction in acreage to the rice farmer in Louisiana would have the effect of substantially reducing his net income.

Under the proposed bill there would be an allotment by acres, but determined by estimated normal farm yield. It has been my experience that when farmers are asked to give normal yield figures to the Government they are inclined to add to the figure in anticipation of a cut. An example of this occurred in Louisiana in 1955, when the allotment program went into effect. USDA asked for the acreage planted on the individual farms, and after they were all turned in the estimates were above the USDA estimated planted acreage. The farmer then had to be cut to the estimated county history of production; then cut again to come within the allocated acres. When this is done and when the production is cut, the farmers who have given a true picture are unjustly penalized by having a greater percentage cut than the others who exaggerated.

The provisions of this bill set the machinery in gear for a multiple price for rice. The certificate plan, as it is known in Louisiana, is a new concept to rice farmers of Louisiana. We have heard of a certificate plan for another commodity and are familiar with the fact that there was once written a certificate plan for rice, but this is the first time Louisiana rice farmers have really been aware of how a certificate plan would work and the ultimate effect on our economy. In testimony before the House Agriculture Subcommittee in opposition to H.R. 7097, the consensus of the Louisiana rice industry was that a certificate plan for rice would not solve the problems of the Louisiana rice industry. We are still of this opinion.

I think this has been stressed before, too, the proposed bill gives the Secretary of Agriculture too much authority to set prices and so on for certificate plans. He can set the price support for this rice at from 65 to 100 percent of parity. True, the Secretary of Agriculture has said he plans to set the price support for this portion of the farmer's crop at 100 percent of parity the first year, but what happens in 1967 under the proposed bill? I interpret the bill to read that the Secretary will have the authority to set this figure at 65 to 100 percent of parity. This, I think, gives the Secretary too much leeway in determining the price farmers shall receive for the domestic share of their crop.

Then, too, as I understand the bill, the producer will be at the mercy of the buying public, and the buying public at the mercy of the Secretary of Agriculture. The bill reads that the producer would receive a marketing allocation on which marketing certificate would be issued equal to the number of hundredweights obtained by multiplying the estimated production on the allotted acres by the national allocation percentage, which is the percentage of the rice crop estimated by the Secretary that will be used in the United States during the marketing year. This "domestic consumption," then, will have a direct effect each year on the gross income of our farmers in Louisiana and the United States.

I will say again, Senator, I am a producer from the word "go," I live by farming rice and I am a 100-percent tenant farmer so if I don't sound too intelligent in my analysis I hope you will understand.

I have read numerous news reports concerning the domestic consumption of rice and the proposed increase in the domestic price of rice. I would like to quote a paragraph taken from an Associated Press article, Washington dateline, entitled "Consumer To Pay for Rice Subsidies if Plan Is Approved":

As outlined by a senior official, the plan, if adopted by the administration and approved by Congress, could boost the price of a pound of rice at the American grocery store from 4 to 6 cents.

Since the domestic consumption of rice will have a direct bearing on my gross income as a producer, I am greatly concerned about the effect of an increase of 4 to 6 cents per pound on the rice market. At the present time, rice is readily accepted and is moving in the domestic market. We are not sure this will continue if the proposed shift takes place.

Consumer preference studies show that low-income groups are very heavy users of rice.

I think all of this has been stated before, too. In fact, almost half of the frequent users of rice have low incomes. Not only is this true, but the frequent users also had larger families, five persons or more. With this being the case, it appears to me that we will surely be in danger of losing a portion of our present market that we have been trying so hard to build.

The significance of frequency of use can best be illustrated by the following tables taken from the Agriculture Information Bulletin No. 15 published by the U.S. Department of Agriculture.
(The tables referred to follow :)

TABLE 2.—*Relation between reported frequency of use of rice and size of homemaker's family*

Size of family ¹	Frequency of use		
	Infrequent users	Moderate users	Frequent users
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Small.....	38	30	26
Medium.....	43	42	36
Large.....	19	28	38
Total.....	100	100	100
Number of homemakers.....	861	895	255

¹ As defined in this study: small families contained 1 or 2 persons, medium-sized families contained 3 or 4 persons, and large families contained 5 or more persons.

TABLE 3.—*Relation between reported frequency of use of rice and level of family income*

Income groups	Frequency of use		
	Infrequent users	Moderate users	Frequent users
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Lower.....	25	28	49
Middle.....	30	34	26
Upper.....	37	31	17
Not ascertained.....	8	7	8
Total.....	100	100	100
Number of homemakers.....	861	895	255

Mr. WITTLER. I would also like to point out to you the fact that New York consumes 12.8 percent and California 15.6 percent of the total domestic rice market. Two areas of the United States consuming 28.4 percent of the entire domestic market.

Another point I would like to make concerns the use of substitutes by the American public. There is a basic belief held by agricultural economists that most agricultural products do not have close substitutes. Because of this belief, economists have expounded the theory that an increase in price of most agricultural products will not result in a proportionate decrease in demand for the product. As an example, if the price of milk was to increase by 10 percent, economists say there would not be a 10-percent decrease in the demand for milk,

since most consumers feel that milk is an integral part of their diet and there is no close substitute for milk.

While this may be true for many of our basic food commodities, it is not true for rice. Rice has several close substitutes both on the consumer market and the industrial market. In addition, a large part of the consumer market that utilizes rice in their diet is concentrated in the lower income bracket as mentioned above. Out of necessity, these people are very price conscious and when given a choice will shift rapidly to any other lower price product.

Of course we are all aware of the fact that industry is very sensitive to price changes. We only have to look at what has happened to cotton in its battle with synthetic fibers to be concerned about this fact.

Thus, an increase in the price of rice will not, like milk, result in a less than proportional increase in demand, but, like cotton, in a more than proportional decrease in demand. Then, gentlemen, rice producers will experience a decrease in gross income due to a decrease in domestic consumption under the proposed plan.

Regardless of any amendments that could be made to protect farmers' income, the one remaining and overriding objection would be the loss of our domestic market, the only market upon which we can depend.

I heard a statement made the other day it was costing the Government something like \$180 million, and it is my understanding we are grossing about \$360 million, and this is something like 50 percent in my mind; I would sure like to have a piece of this kind of business. But, nevertheless, Senator, I made the statement here not to be frivolous or anything, but if this is costing the U.S. Department of Agriculture for me, as a producer, \$100 an acre, I would just as soon they gave me \$50 of this and cut their costs in half and we would both be happy.

So I am serious in the way I am making the statement, but it just occurs to me this way. Seriously, I cannot see how this proposed plan would, in any way, benefit rice producers in Louisiana, or the economy of our State. Producers have spent millions of dollars building a market for rice at home and abroad. This was money out of their own pockets promoting a commodity they are dependent on for a livelihood. I know you are familiar with our rice council, Senator Ellender, and what job they have done. And I want the members of the committee to know this is all voluntary money, we give this on a per-barrel or per-pound basis to the rice council, we call it for promotion, and have done an outstanding job. It took us a long time to sell this and we feel we have done something worth while, and we would hate to have this crippled or destroyed.

Senate bill 2111 recently introduced is quite similar to Senate bill 1702. There are some changes in the bill that would strengthen the administration's proposal.

There is a provision to set the price support that a farmer will receive for certificate rice at 100 percent of parity. This, I agree, would put some stability in the administration's proposal, in that the producer would not be dependent entirely on the Secretary of Agriculture for the price he is to receive for his certificate rice, or, for that matter, noncertificate rice.

The CHAIRMAN. Well, as I stated when I introduced that bill, it was merely to have——

Mr. WITTNER. Right.

The CHAIRMAN (continuing). To have a bill before us.

Mr. WITTNER. Yes, sir.

The CHAIRMAN. So we could either add something to it or take away from it, or do away with it.

Mr. WITTNER. This is always good. If we can stimulate some discussion in the industry, this is what we need.

The CHAIRMAN. It is my belief from all I heard this morning that insofar as the consumer is concerned, S. 2111 would have the same effect as the administration bill since it would provide a price equal to a hundred percent of parity for what is consumed domestically. The rest of it could be sold on the world market at either what the world market is, or 50 percent of parity whichever is higher. In the latter respect it is my belief that the bill is much better than the administration bill.

As I said, I am not wedded to it. I can well see that the program of transferring this additional cost to those who consume the rice is not fair, particularly when we have corn receiving quite a big support, but paid from the Treasury, so is tobacco, and other basic crops.

Mr. WITTNER. Yes, sir.

The CHAIRMAN. And I am not at all for a program that would designate rice as one of the commodities for which the costs would be transferred, the cost of the program, would be transferred to the consumer by way of higher prices.

Mr. WITTNER. Well, I think——

The CHAIRMAN. I feel what is good for corn is good for rice, let's just put it that way.

Mr. WITTNER. I don't think—the brewers testified, I didn't hear them, but I think the cereal and brewery people if they knew this was going to occur in 4 years it wouldn't make a great deal of difference to them, they would gear the production or their buying immediately, assuming this was going to happen. If I can read on a little further to you I think I can explain it to you.

The CHAIRMAN. All I am trying to do is get an alternative to get agreement on, but if we can't I can forget that as well as I can forget title III of the bill.

So proceed.

Mr. WITTNER. Another provision in Senate bill 2111 delays the price increase to the consumer for 4 years, in that the certificate costs to processors for rice purchased would be paid on a basis of 25 percent the first year, 50 percent the second year, 75 percent the third year, and the full amount the fourth year.

Just as I said, gentlemen, this would only delay the death of the rice industry for 4 years.

I cannot see any advantage of adopting a certificate plan for rice at this time.

Louisiana producers would be most happy to meet and confer with the Department of Agriculture in an effort to attempt to write a program that would be satisfactory to the rice industry and the Department of Agriculture.

I would urge you to vote against any bill that would embody the provisions called out in Senate bill 1702 or Senate bill 2111.

Thank you very much, Senator, for your kind attention.

If you have any questions on this other than those you have already put, I would be delighted to try to answer.

The CHAIRMAN. I have no questions. I think I understand the problem pretty well.

Mr. WITTLER. Yes, sir.

The CHAIRMAN. I notice here that the apportionment of rice throughout the producing States amounts to 1,818,638 acres. I want to put in the record at this point the highest number of acres planted to rice in past years. Will you get that?

I also want to put in the record the acreage that was planted to rice, say, in the last 5 years.

My reason for doing that is this: I want to ask your views on it. It would seem to me that if the producers of corn are entitled to a certain amount of money not to plant corn, I don't see why that should not apply to the rice people. In other words, I am not advocating that, but if the Department seeks to reduce your acreage from 1,818,000 to 1,800,000, there is no reason why the rice farmer should not be compensated on the rice that he doesn't plant the same as corn, and other commodities are. Because it will be my purpose here to make it possible to hold your income, at least at what it was last year.

Mr. WITTLER. We need this very badly, Senator.

The CHAIRMAN. I know that. I understand that.

Mr. WITTLER. It was real crippling to us to have this reduction, even. You know that, of course. This is not the question today.

The CHAIRMAN. I understand that. And the testimony has been very effective, I am sure, because I heard several Senators on the way out talk to me on what a fine presentation was being made, and I believe that we can make a good case so as to at least retain the income that is now being made.

In 1954, the record shows that there were 2,550,000 acres of rice harvested, more than that planted. Now, we have a program here, a corn program, where the total amount of acreage was around 72 million, as I remember, and the producers of corn have a support price, they are asked not to plant too much so as to cut surpluses but on that portion of the land that they don't plant the corn, they get a support price as though they planted the corn.

Well, if that is good for corn, it is good for rice, and that is why I want to get all these facts in here so that we can work a program up, if possible, so that the producers of rice will obtain at least the income that you are now receiving, and I shall work to that end.

Anything else?

Mr. Hardee?

STATEMENT OF H. G. HARDEE, VICE PRESIDENT, LOUISIANA FARM BUREAU FEDERATION, GUEYDAN, LA.

Mr. HARDEE. Mr. Chairman, my testimony is quite short, and I deal with only one aspect of the problem facing us.

I am H. G. Hardee, a rice producer from Gueydan, La., and reside at Gueydan. I appear before you today as vice president of Louisiana

Farm Bureau Federation, officially representing the Louisiana Farm Bureau, an organization of 22,500 farm families domiciled in the State of Louisiana.

I appreciate very much the opportunity to appear before you today to give our views with respect to the proposed legislation regarding rice.

The present rice program under which we are now operating is being attacked by the administration because it is claimed that the rice program is extremely costly. I would like to review with the committee the stated cost of the present program for 1963-64.

As of the fiscal year beginning 1963-64, the cost of the rice program, according to the administration, including price-support losses, donations, export subsidies, enrichment costs, et cetera, was as follows:

Price support and related costs for rice-----	\$53, 909, 569
Public Law 480 costs-----	125, 774, 568
Total-----	179, 684, 137

Gentlemen, from the above cost figures of the present rice program to the U.S. Government, we can readily see that the rice farmers of Louisiana and the United States are being charged the total cost of Public Law 480 sales and donations of rice to the program. This is obviously wrong, because Public Law 480 is not a commodity program, but a program designed to alleviate some of the hunger and suffering in the world today and to bolster the sagging economies of the less developed nations of the world.

As the program is being charged now, a handful of farmers are paying the cost of feeding the poor starving people of the world—these farmers are bearing the brunt of the cost of a famine relief program.

The proposed certificate plan submitted for your consideration has been drafted with the thought in mind of cutting the cost of the rice program to the Government. Statements have been made that the \$180 million price tag of the present program is entirely too much.

I would like to call to the attention of the committee section 103(a) of Public Law 480 that directs the President of the United States to classify Public Law 480 expenditures under "International affairs and finance" rather than "Agriculture and agriculture resources" in his budget message to Congress.

This is charged in the budget message, this is not charged to agriculture; it is charged to international finance, international affairs and finance rather than agriculture. Yet when the Secretary of Agriculture puts these figures out as a cost of the program it is thrown back into the cost of our commodity programs and really if it is directed in the budget to be put in one place it seems wrong to take it out of there to figure the cost of commodity programs and throw it back into the commodity program.

The Secretary of Agriculture has stated that—

there are today, out of more than 3 million farmers, only 400,000 who earn even close to parity of income—most do not earn the minimum hourly wage of \$1.25.

He further states that—

the total cost of the rice program is \$180 million, including Public Law 480, export subsidies, price supports, etc., which is equal to about one-half of the gross farm value of the crop or about \$100 per harvested acre.

I think the Secretary of Agriculture has grossly misrepresented the true cost of the rice program to the Congress and the public in making this statement.

It is clearly intended by the Congress as we see in section 103(a) of Public Law 480 that Public Law 480 costs not be charged to commodity programs. In the case of rice in 1964, 70 percent of the stated total cost of \$180 million was the cost of the Public Law 480 program. This leaves approximately \$54 million as actual cost to the Government for the rice program, if the Public Law 480 costs are left out.

Before we can truly criticize the cost of this program, I would ask this committee to establish the actual cost of the rice program to the Government.

Before this is done, I see no reason why the Secretary of Agriculture should propose or Congress enact legislation which would seriously threaten our industry and the economy of the rice producing areas with bankruptcy.

The Secretary further states that it is essential that we reduce the cost of the rice program so it is more nearly comparable in cost to other commodity programs. Here again, the Secretary should not use this reason to reduce the cost of a program. It is extremely hard to compare commodities. There are variables between commodities such as production per acre, size of farms, cost of production, investment per acre, et cetera, that would not be reflected in such a comparison.

The Secretary of Agriculture has stated that one of the reasons for proposing this legislation is to reduce the cost of farm commodity programs in order to free more public resources for the war on poverty, for education, for housing, and for the many other programs designed to help people in rural and urban areas. Gentlemen, why should the rice consumers pay the cost for the war on poverty?

We are willing to sit down and work with the Department of Agriculture and all interested parties in developing a better rice program. Before attempting this, I again urge you, this committee, to establish the actual cost of our rice program.

I sincerely urge you to eliminate title III from the Food and Agriculture Act of 1965. This will allow time for the Congress, the rice industry, and the Department of Agriculture to review the rice situation and attempt to solve our problems.

Thank you for your kind attention and the opportunity to appear before you.

The CHAIRMAN. Mr. Hardee, I wish to say this, that most of us are familiar with these costs, not only on rice but on wheat. As I recall the figures offhand, the wheat program from its inception to about a year ago cost the taxpayers only \$13.1 billion altogether, and that is an expense that was more or less charged to the farmer, but who got it—a lot of hungry people across the seas. The same thing occurs as to rice.

I can well remember when the 10-percent increase was made on acreage, it was simply to produce more rice so as to feed a lot of hungry people of Asia.

Mr. HARDEE. We had more rice on hand at that time than we do, I believe, at the present time.

The CHAIRMAN. Well, the reason for it, of course, was that we had gone into a big program during World War II, and the farmers continued to produce on the acres they then had allotted to them, and since we didn't sell the price abroad as we had during the war, why, of course, we had this accumulation come up.

Mr. HARDEE. I was referring, Senator, to, I believe, 1962 our acreage increase at that time, we had very little rice on hand.

The CHAIRMAN. Yes, sir.

Mr. HARDEE. And yet we got an increase in acreage, and we have less today than we had in 1962 when we received a 10-percent acreage increase.

The CHAIRMAN. Yes.

As I said awhile ago, I want all of you who are present here, the rice-growers, to hear this, it is true that over the years your production of rice has increased tremendously per acre. When I say tremendously, I mean a fair increase per year.

Now, if we are to retain the same income to the rice farmers as they had last year or during the current year, something will have to be done in order to compensate the farmer, the rice farmer for any land that he is now planting and which he is prohibited from planting next year, and I hope to have a program worked out whereby if the Department decides to cut your acres from 1.8 to 1.6 million, then we want to have some way to compensate you on the 200,000 acres that you are not going to plant rice on because I think this administration has said on many occasions that it does not want a cutback on the farmers' income, and that is something I don't want to do if I can help it.

As I said, if it is good for corn, if it is good for other commodities, then I don't see why we shouldn't have a program similar for the rice people.

Mr. HARDEE. Senator, I think one thing that even many farmers have not understood since 1962 when the price of rice remained at \$4.71 average, that each year he was taking about a 2-percent decline in price because of the increased cost, and today this \$4.71 would be down at 70 percent of parity, when in 1962 it was 78.

The CHAIRMAN. This is true of rice as of other commodities.

Mr. HARDEE. Yes, but if the price remained stable each year he is taking a decrease in net income because of inflated costs and we have nothing to do with that. This is hard for the farmer to see, he knows he has less money and, "I don't know why," he made a bigger yield and sold it for the same price and he has less money left to pay off his loans. This is the problem he is facing now.

The CHAIRMAN. I think the committee as a whole are people who respond pretty well, and I will see to it that they get the facts when we sit here and try to prepare a bill.

Mr. HARDEE. Thank you.

The CHAIRMAN. It will be most difficult to do it, but we will make an effort anyhow.

Thank you very much.

Mr. HARDEE. Thank you, Senator.

The CHAIRMAN. Mr. Hoffpauir?

STATEMENT OF GEORGE E. HOFFPAUIR, MORSE, LA.

Mr. HOFFPAUIR. Mr. Chairman, and gentlemen of the committee, my name is George E. Hoffpauir. I am a rice producer from Morse, Acadia Parish, La. I operate farms which I own and rent totaling 1,525 acres.

I sincerely appreciate this opportunity to appear before you today to express my view of the proposed legislation concerning rice as contained in title III of the "Food and Agriculture Act of 1965."

This bill proposes to maintain or improve farm income but I feel it can only do this if our present domestic market continues and improves. Under this bill the price of rice on the domestic market will increase approximately 50 percent.

No studies have been made, to my knowledge, that will show the consumer's reaction to such a price increase, and I strongly feel that the average housewife will purchase other foods to replace rice in her family diet. I am opposed to this bill or any substitute bill that would cause a sharp increase in the price of milled rice on the domestic market.

The rice industry has contributed much time, effort and money to a voluntary program for the promotion of rice which has been administered by the Rice Council and has been very effective in increasing the per capita consumption of rice in the United States. Rice is the only carbohydrate food which has shown an increase in per capita consumption. I strongly feel that all of the effort and money put into this program will have been spent in vain if such an increase in the price of milled rice is put into effect. I also feel that small farmers, even though they are given preferential treatment under the certificate plan, will have a smaller income after the first year because of the drop in the domestic consumption caused by such a price increase.

I feel that the reduction in acres necessary to limit production to 60 million hundredweights as proposed by this bill will be disastrous to the economy of our area, to the related businesses as well as the rice producers. The continued rise in the cost of equipment and supplies necessary to produce rice has caused an ever decreasing margin of profit in producing rice and any decrease in acreage would cause a great loss of revenue to all retailers and producers in the rice area.

Very few of the ricegrowers are in a financial position to produce a rice crop without borrowing from some lending agency. There is a possibility that these agencies would exert pressure on the grower to reduce his acreage so that the blend price would give the grower a higher per acre income while at the same time those growers who are tenants could be put under pressure by their entire allotment as any reduction in acreage would decrease the income of the landlord who receives a share of the crop as rental.

I do not claim to know anything about U.S. diplomacy but we are now involved in trouble spots in countries which depend primarily on rice for food. I am sure that even if all of the differences could be solved today our food-for-peace program would still be in need of large quantities of rice to feed these people. Therefore, I do not think that this is a time to be considering a reduction in the amount of rice produced.

We have been told that the certificated rice in 1966 would be supported at 100 percent of parity but it is possible for this to be only 65 percent. If we producers were to receive world price for approximately 60 percent of our crop and only 65 percent of parity on the other 40 percent of our crop then our income would be lower than the cost of production.

It is my understanding that this legislation was brought about by the apparent high cost of the rice program. Surely if the State Department was to be charged for the rice used in the food-for-peace program and the Department of Health, Education, and Welfare charged for rice used in the school lunch programs and for welfare purposes, the cost of administering the rice program would not be so high to the Department of Agriculture.

I am especially opposed to the wide powers left to the discretion of the Secretary by this legislation.

An example of this is found in section 306 of title III. This section gives the Secretary of Agriculture judicial powers. I know of no tenants or landlords who are not operating under the terms of a lease entered into by both parties and which cannot be terminated except for just and valid reasons prior to the full term of the lease as stated in such lease.

There has been a wonderful working relationship between the producers and the Department of Agriculture in the past but the complicated methods used to arrive at allotments and certificates as contained in this bill will surely cause much confusion and misunderstanding.

Mr. Chairman, I respectfully urge the committee to remove title III from the bill and, as an alternative, have a continuation of our present program with a realistic percent of parity as support.

Thank you, Mr. Chairman, for allowing me to testify before your committee.

The CHAIRMAN. All right. Thank you.

Mr. Cowen?

Glad to see you again.

STATEMENT OF RALPH L. COWEN, MIDLAND, LA.

Mr. COWEN. Thank you, sir.

Mr. Chairman, and gentlemen of the committee, I am Ralph L. Cowen, a rice farmer, situated in the heart of the rice industry in southwest Louisiana. I have a B.S. in agronomy from Louisiana State University. I own 120 acres of land, I farm 890 acres of rented land, and I have 334 acres of rice allotment. Altogether I have a capital investment in my farming operations of approximately \$110,000. While there are those in this Nation who farm for a hobby, farming is my mode of earning a livelihood and therefore my principal vocation in life is earning a just return on the capital investment which I have in my farming operations. May I state at the outset that I like farming and I have neither desire nor intention of terminating my operations. I appear before you today for the express purpose of opposing the proposed legislation under title III of Senate bill 1702 and also under Senate bill 2111, introduced by yourself on June 9, 1965, both of which, in my opinion, are dangerous economically and could conceivably

terminate farming operations such as mine, if not immediately, in the foreseeable future.

The present rice program, while not necessarily the answer to all of our problems, has worked successfully for several years in maintaining a balance between supply and demand. It has permitted the marketing of rice for several years without buildup of surplus CCC stocks. There is considerable apprehension on my part over the proposal to change the present rice program, which, if less than highly successful, is certainly workable, to the proposed certificate plan, which is untried and could have some disastrous results.

In the first instance, farmers generally abhor and fear controls, regulations, and forms, and this legislation would be a maze of bureaucratic controls. As I understand the proposed legislation, there would be a production unit established for each farm in determining the certificates to be issued to each producer, and the total national minimum will be based on units of production. It is immediately apparent that the administration of such a program would be most difficult, requiring the establishment of a normal yield per acre based on past history for each rice farm in the United States. I am positive that adequate, authentic records are not available for this purpose, and many farmers would be unable to give the exact figures in order to base such a history. Unfortunately, many farmers would exaggerate their production, and this may result in lower normal yield figures for a vast majority of honest farmers. This is not right, but neither is the method used, as an example of one method, used in my parish or county when some producer is asked to go out and estimate the past yields of all of his fellow producers whether he is familiar with their yields or not. It is certainly not right to have my yields based upon the guestimate of a person who is not familiar with my operations. This is certainly a most unfair and unjust method.

Louisiana, the oldest rice-producing State, has been unfortunate in the results of past programs, and it is certainly true will fare badly in another program where yields per acre will be the measure against the newer sections, where their soil conditions are much newer and more favorable to high yields. It is not right to continue to penalize us, and we are not anxious to be subjected to another slash, as I feel will be the result with this program based on field yields.

Of interest to me is that portion of the proposed law which would give authority to the Secretary to reduce the rice acreage allotment of any farm if the farmer, owner, or landlord evicts or otherwise mistreats a rice tenant or sharecropper on the farm. I would like to remind you of the figures that I stated in my opening remarks concerning my personal operations. I am a very small landowner and a much larger tenant, so you see this section especially pertains to my own operations. Here you propose to strip the owner of land with one of his constitutionally vested interests under the broad authority granted the Secretary. After all, what right does the Secretary have to determine whether or not a tenant or sharecropper has been mistreated? And, where are the safeguards for a landlord who may be mistreated by a tenant or sharecropper? It requires no person learned in the law to know that the business of landlord-tenant is a relationship entered into voluntarily by contract, and the rights and obligations of both parties should be and are governed by the courts. You propose to

enforce this by placing into the hands of the Secretary the authority to reduce rice acreage allotments as some form of punishment for the farmer who has a misunderstanding or grievance with a sharecropper. I ask you, where is the precedent, where is the justification for such an act? After all, I feel that the owners of these lands have a right to farm or use them subject only to the obligations of their respective contracts as interpreted by the court and not by the Secretary of Agriculture. We have approached socialism close enough already, without opening the door completely.

Mr. Chairman and gentlemen of the committee, rice is a major crop in Texas, California, Arkansas, Louisiana, and Mississippi, and about half a dozen other States have small amounts of production. It is estimated that the 1964 rice crop has exceeded \$360 million and is, therefore, an important segment of our farming economy. Over 50 percent of the domestic consumption of U.S. rice is consumed in direct food uses mostly by low-income families. Any program which would increase the price of rice to these low-income families would tend to drive these people to the greater consumption of other cereals and food, such as potatoes and corn, and thus greatly cripple the rice industry in America. Perhaps it is true that the current rice program costs the Government about \$180 million per year; however, it must be remembered that the greatest part of this cost is for the cost of administering Public Law 480. It must be acknowledged that Public Law 480 is used to provide a great foreign policy service to the whole United States and all citizens of this country, not exclusively to those in the rice industry. The use of rice in the foreign policy field should be accepted for the contribution that it makes to the national welfare, and certainly our industry should not be expected to destroy its health or the soundness of its marketing system in order to provide, at the cost of the rice industry alone, a program which is necessary to the national welfare and safety. While the entire citizenry of this country can bear the cost of such a program, it goes without saying that those of us in the rice industry alone cannot be expected to bear the cost, nor can we afford such a service.

Mr. Chairman and gentlemen of the committee, in summary, we in the rice industry have been able to get along in the face of rising costs and lower prices under the present program. It is not Utopia for us, but we have adjusted our mode of living and methods of operation and have learned to live within the limits of the present program. This proposed legislation, if passed, will cripple the rice industry and reduce the net income of the rice farmer and will certainly be acknowledged as the proverbial straw that broke the camel's back, because it requires neither a great economist nor a learned soothsayer to state with conviction and absolute truth that we, the rice farmers of America, have gone the last mile of the way.

Since we cannot travel with the proposed certificate program, I urge that any legislation be deferred for 2 years, or at least a year, allowing adequate time for the rice industry, in cooperation with the administration, to work out a plan which will be just in all respects, not only to the producer, but also to the Department of Agriculture. It is only fair, during this interim, that the existing rice program be allowed to remain as it is, without reduction in acres or support price. I feel certain that all segments of the rice

industry will work as strenuously to devise a plan suitable to producer and the Department of Agriculture as they have to oppose this most objectionable certificate plan.

I feel that neither the economy of the State of Louisiana, nor the foreign policy of this Nation, can long survive without an annual harvest of this golden grain, which, since the dawn of recorded history, has fed more peoples of the world than all other cereals combined.

I would like to turn this in, and have it recorded.

The CHAIRMAN. Mr. Cowen, you stated in your statement just now that you don't want a reduction in acres, do you mean below the minimum fixed in the law or below the current allotment.

Mr. COWEN. Well, I would say the minimum fixed in the law.

The CHAIRMAN. But the acreage planted now is 1.8 million.

Mr. COWEN. A million eight.

The CHAIRMAN. And what you had reference to is a million six.

Mr. COWEN. Yes, sir.

The CHAIRMAN. Which is the minimum.

When you say support prices, you mean support from 65 to 90 percent of parity?

Mr. COWEN. Well, I would like to see it stay where it is at this 68 percent where it is right now, defer action until we can come up with something.

The CHAIRMAN. That is what I want to get clear.

Mr. COWEN. Yes, sir.

The CHAIRMAN. You say you want the support price not to be changed, when you say that you mean the current?

Mr. COWEN. At the current.

The CHAIRMAN. Whis is around 68 percent.

Mr. COWEN. Yes, sir.

The CHAIRMAN. You wouldn't mind 72, would you?

Mr. COWEN. No, sir, not a bit. I heartily urge that, too.

The CHAIRMAN. Yes.

All right.

A very nice statement, sir.

Mr. Fossett?

STATEMENT OF IKE FOSSETT, PRESIDENT, ALLEN PARISH FARM BUREAU, KINDER, LA.

Mr. FOSSETT. Mr. Chairman, and Members of the Senate, my name is Ike Fossett, from a little town in Louisiana by the name of Kinder.

I would like to say, first of all, that this is quite an honor for a small family farmer like myself to be given an opportunity to testify here today.

The CHAIRMAN. Well, it is an honor for us to have you, sir.

Mr. FOSSETT. In behalf of my——

Senator RUSSELL. I will second that.

Mr. FOSSETT. In behalf of myself and my fellow rice farmers in Allen Parish in the State of Louisiana, I would like to express the following views concerning the proposed rice bill and farm bill, if I may at this time so I will elaborate on my talk.

The CHAIRMAN. Surely.

Mr. FOSSETT. I am not very good in putting words together by reading, but I can sure talk your heads off.

The CHAIRMAN. All right, we will listen to you.

Mr. FOSSETT. When I speak concerning the views of small farmers we are desperately in need of this thought to be thought of.

Senator RUSSELL. When you say small farmers, what do you mean?

Mr. FOSSETT. In my section of the country, and I say from thinking 70 percent of the farmers in southwest Louisiana, that is the part that I speak of, 70 percent, I would like to refer to some of the fine testimony that just came to you about facts and figures by department heads of some of the people here who are in the industry and ourselves as taxpayers have provided services by the department to furnish these facts and when I speak of a small farmer, I would like to refer back to this portion that one of my members from the State of Louisiana wrote out to you so plainly. The \$6.76 an acre or 4 cents an acre return, 70 percent of the farmers, 70 percent of the rice farmers.

Now in southwest Louisiana with all these rules and laws and stuff that is so fine, you can own a piece of land and get \$60.60 return from the water and land which represents the 30 percent. Think of that, gentlemen, that is your responsibility, you are public servants of the people, you were selected to serve on this committee and you preside from your State with honors, integrity of the people who laid you out to judging these things.

Now——

The CHAIRMAN. Can you answer his question as to how many, what is the average size in your area in acres?

Mr. FOSSETT. The average size farmer in our particular part of the country is approximately 150 acres.

The CHAIRMAN. How much of that is planted to rice?

Mr. FOSSETT. That is the size of the farmer, Senator, the rice farmer.

The CHAIRMAN. I see, but how much of that 150 acres is planted to rice?

Mr. FOSSETT. In my section of the country you have got to own a thousand acres of land to farm 300 acres. They are big land corporations that own most of the land. I am a tenant, very small tenant, a landowner, but I am surrounded by corporations who own thousands of acres of land and have as much as 15 to 20 sharecroppers that have only one right, to vote on a referendum but have no right in the existing law. When I said I wanted to elaborate on what I was speaking of, I am a little different in my testimony than the others. I go along with the Department on some things because it says here my first concern is quite naturally in increasing the income of the small rice farmer.

Due to increased cost of machinery, fertilizers, labor, tools, and anything else, the rice farmers net profit has been so disastrously cut that it is now next to impossible for him to continue to operate, \$6.47 an acre is good proof.

We would strongly suggest that the parity on rice be increased in whatever manner possible.

Much recognition has been given to section 306 of this farm bill. The tenant farmers of southwest Louisiana feel that legislation of this type is long overdue. We respect the right of private property and agree that this is in essence to the free enterprise way of life that made our Nation great and its people trying to enjoy the fruits of their labor. However, where the rice allotments have been administratively set on the farm, there have been many examples of abusive treatment to the individual rice producer who in many cases was responsible for building the rice acreage history on the farm. The most common of these wrongdoings occur when the landlord increases rental prices on his farm or making other demands which increases his income at the expense and loss of the rice producer.

Could I comment on that, sir?

The CHAIRMAN. Proceed.

Mr. FOSSETT. When we speak in terms of a landlord we have several and in some cases land agents that rent land for a sum of money, other than rice acreage, they administer this land under lease, and in turn, a lot of your trouble is coming from your tenants, sharecroppers, by bargaining with land agents which you have no proof on. It is surprisingly in southwest Louisiana that a land agent can have 5 farmers, 1 successful farmer farming making 24 barrels to the acre, and they run him off and give it to a man that has been making 20 barrels to the acre. That is the surprising thing. It sounds funny.

The CHAIRMAN. Why should it be done?

Mr. FOSSETT. We cannot say, Senator, but those things are done. Your land agents have bargaining power under existing law in the administrative area, and it is not the proper type, I guess to say that a man is doing wrong, but it is surprisingly funny that one man will be an agent or administrator of affairs of this nature and get rid of one is to lose money on the other, but that does exist among this 70 percent.

Now, we in the parish, gentlemen, think you agree that this is not the intent and purpose of acreage allotments and we would like to recommend that section 306 of this farm bill be accepted as written.

The Allen Parish Farm Bureau recommends that this committee vote as follows on other provisions of S. 1702:

Title III, section 380b, "Rice Marketing Allocation":

We recommend a favorable vote of this section, provided the tenant farmer is protected in setting the allocation.

Section 380c, "Marketing Certificate":

We recommend a vote against this section. This creates a two-price system.

Section 380d: Recommend vote against.

Section 380f: Recommend vote against.

Section 108: This section should state "Not less than 78 percent."

The CHAIRMAN. You mean between 78 and 90 percent?

Mr. FOSSETT. Between 78 and 100 percent.

This legislation is longover due and should be passed.

Title VI, "Transfer of Allotments," section 601: We recommend passage of this section. However, a limitation as to number of miles that acreage could be transferred should be established.

The CHAIRMAN. You mean the distance from one farm to another?

Mr. FOSSETT. Yes, sir, Senator; in the existing law today, it is provided, it appears to us in our section of the country that could be very easily administered and in Louisiana, we have a producer area east of the Atchafalaya River, the law is written in that behalf in accordance with the problems within the section that this commodity is grown, so, therefore, we think that under title V that that would be very easy to do. And west of the Atchafalaya River it is on the land instead of the producer, and under this existing law—

The CHAIRMAN. Under the law it is optional, you know. The Secretary could base allotments on producer history instead of farm history in Louisiana, if the growers want that, as he does in Texas.

Mr. FOSSETT. Senator, you can't get a sharecropper to go and go before and exercise his opinion under the existing law in southwest Louisiana and jeopardize his position.

The CHAIRMAN. I am sorry, but we have to go and vote. We will be right back.

(Brief recess.)

The CHAIRMAN. All right, Mr. Fossett, you may proceed.

Mr. FOSSETT. Senator, we recommend a change in title V, I explained portions of why. It says here the limitations should be boundaries including not more than two or three parishes or counties, and that quotas should stay within administrative areas. If no restrictions are placed on such transfers, the landowners could work a hardship on the tenants.

Now, we picked this portion out because it pertained to our section of the country, being that in some sections of the country, it is provided, as you said a while ago, it is an option of the State committee which resides within the USDA portion of it, and it is our understanding that our parish, that the State committee has the duty to perform, of the Secretary of Agriculture to help administer the law, in its turn asking the people to elect and appoint such committees. That is why we brought this section up.

Now, I would like to, if I may, comment a little bit on what has been said, and what I have been trying to say.

Getting back to industry, it appears in our section of the country that the rice industry is very, very needed, and the rice farmer has enjoyed trying to work with the industry. We have also followed the bill closely and find that the thing that has hurt us most is that we have been under a law which is called administrative, and we are raising a commodity with a restriction to provide ways for industry to do better at the expense of the producer in the law, not allowing the producer to participate in the programs that are brought out for him that have been laid out in the law.

That is, I am talking about storage and things of that nature. We have here \$6.40 an acre against \$60 an acre, and in our section of the country, and east of the Atchafalaya River land sells for this purpose at approximately \$100 to \$175 an acre, which is a conservative figure, where it is an administrative \$200, \$300, and \$400 an acre.

So it is our thinking that this law provides services for land instead of commodities, and also it produces bargaining power for industry over the expense of this 70 percent of the producers.

We strongly urge that the committee and all work with the Department of Agriculture and other sources. We realize that the Department is administering the law to the best of their ability from a national—and we realize that these things came about with nobody to blame but the producer. But under the existing law it is provided that the producer is not being given the right to speak for himself, and we feel in our section of the country that that is wrong, that is not the policy of this country.

I thank you. If there are any questions I could answer I would try to do that.

Mr. CHAIRMAN. Thank you, Mr. Fossett. You have read your report and, of course, that will be in the record in full, and the discussion will also appear there.

(Mr. Fossett's prepared statement is as follows:)

Chairman Ellender, members of the Senate Agriculture Committee, I would like to say, first of all, that it is quite an honor for a small family farmer like myself to be given an opportunity to testify before you today. In behalf of myself and my fellow rice farmers of Allen Parish, in the State of Louisiana, I would like to express the following views concerning the current proposed farm bill.

Our first concern, quite naturally, is increasing the income of the small rice farmer. Due to increased cost of machinery, fertilizers, labor, tools, etc., the rice farmer's net profit has been so disastrously cut that it is now next to impossible to continue his operations. We would strongly suggest that the parity on rice be increased in whatever manner possible.

Much recognition has been given to section 306 of this farm bill. The tenant farmers of southwest Louisiana feel that legislation of this type is long overdue. We respect the right of private property and agree that this is in essence to the free enterprise way of life that made our Nation great and its people trying to enjoy the fruits of their labor. However, where the rice allotments have been administratively set on the farm, there have been many examples of abusive treatment to the individual rice producer who in many cases was responsible for building the rice acreage history on the farm. The most common of these wrongdoings occurring when the landlord increases rental prices on his farm or making other demands which increases his income at the expense and loss of the rice producer.

Gentlemen, we think you agree that this is not the intent and purpose of acreage allotments and we would like to recommend that section 306 of this farm bill be accepted as written.

The Allen Parish Farm Bureau recommends that this committee vote as follows on other provisions of S. 1702:

Title III, section 380b, "Rice Marketing Allocation":

We recommend a favorable vote of this section, provided the tenant farmer is protected in setting the allocation.

Section 380c, "Marketing Certificate":

We recommend a vote against this section. This creates a two-price system.

Section 380d: Recommend vote against.

Section 380f: Recommend vote against.

Section 108: This section should state "Not less than 78 per centum or more than 100 per centum of the parity price therefor as the Secretary determines."

Section 352: This section would be acceptable provided the parity price support would be increased to 78 per centum.

Section 306: This legislation is long overdue and should be passed.

Title VI. "Transfer of Allotments," section 601: We recommend passage of this section. However, a limitation as to number of miles that acreage could be transferred should be established. These limitations should be boundaries including not more than two or three parishes or counties, and that quotas should stay within administrative areas. If no restrictions are placed on such transfers, the landowners could work a hardship on the tenants.

Again may I convey to you my sincere appreciation.

The CHAIRMAN. All right.

Mr. Mouton, Mr. Dockery, and Mr. Lyons.

Mr. MOUTON. Yes, sir.

The CHAIRMAN. You represent Mississippi Rice Growers?

Mr. MOUTON. Mr. Lyons will read the statement.

The CHAIRMAN. All right, proceed.

STATEMENT OF HAROLD D. LYONS, GENERAL MANAGER, MISSISSIPPI RICE GROWERS ASSOCIATION, CLEVELAND, MISS.

Mr. LYONS. Mr. Chairman and members of this committee, the rice producers of Mississippi are represented today by R. C. Mouton, president, Mississippi Rice Grower Association; Joe Rice Dockery, member, National Rice Advisory Committee; and Harold D. Lyons, general manger, Mississippi Rice Growers Association. The Mississippi Rice Growers is a producer-owned cooperative and is primarily engaged in the marketing of Mississippi rice production. We consider rice one of the most important crops in the Mississippi Delta and most vital to our economy.

We ask the committee to carefully consider the high investment per acre for rice production in the United States and the constant increases in costs for machinery, fuel, labor, services, chemicals, and plant foods necessary for rice production. With this in mind we point to the widespread authority which the Secretary may employ in determining rice allotments from year to year. Legislation for rice should insure a stable allotment to enable the producer to gear his operation to coincide with his acreage. Fluctuations would be extremely costly and would eventually cause grave hardship to the producer.

We have devoted much time and work since the introduction of S. 1702, attempting to poll our producers and explain title III of this legislation to them. We have tried, to the best of our ability, to analyze the ramifications of this bill and the end results which we might anticipate. Title III grants such widespread authority to the Secretary of Agriculture that this task is virtually impossible. Every producer asks the same question: "What would my allotment be and what would be the basic support for my rice?" When you explain to them the flexibility which would be granted to the Secretary they immediately voice their disapproval. Under title III, allotments would be determined by a projected production goal with a minimum of 60 million hundredweight. Using maximum production figures this would mean a minimum national allotment of some 1,400,000 acres. Percentagewise the producer could possibly be obliged to accept approximately 25 percent reduction in his rice allotment. If Government stocks were excessive at this time, if there was any indication that we would have an excessive surplus in the future we could understand the need for a slight reduction in acreage. The Secretary, in determining basis price support for that portion of rice sold on the domestic market, could employ figures ranging from 65 to 100 percent of parity. As you can readily determine, this extreme flexibility granted to the Secretary makes it virtually impossible to even make a calculated guess as to what price support or allotments would be for any future year. This is only one good reason for nonacceptance among the rice producers.

The rice producers of Mississippi are united in their opposition to any rice legislation whereby allocation is based on a production or unit basis rather than an acreage basis. With allotments determined on a projected yield basis acreage would shift from State to State each year.

We are also opposed to legislation which penalizes producer incentive and discriminates against large producers while small producers receive preferential treatment on a larger percentage of production supported at the domestic rate. Our producers would be placed in a very difficult position in obtaining financing for their farm operation. Long-range planning would be impossible. Lending institutions would be reluctant to extend adequate credit to producers because of the widespread range of authority in determining allotments and price support.

We sincerely believe that this legislation would place a landowner in a precarious position in the renting, sharecropping, or leasing of his ricelands. A minor incident could virtually tie up an allotment and cause a landowner to suffer substantial losses. Subsection G of section 306, in our estimation, is entirely unnecessary and unfair to the landowner.

We are deeply concerned with the proposed price increases on our domestic market. Present estimates reveal an increase of 4 to 6 cents per pound of milled rice to the domestic consumer. The Department has averaged this and estimates it to be only 30 cents per person. What they have not taken into consideration is the fact that most of this increase will be placed upon the poor and low income groups who are the largest consumers of rice in the United States. It has already been determined that about \$16 million of this amount would be borne by the Puerto Ricans alone. We do not feel that this is fair to them, nor do we feel that they are in a position to accept this increase in the price of their rice. We sincerely believe that an increase of 4 to 6 cents per pound would cause a drastic decrease in per capita consumption of rice in the United States and its territories.

The U.S. brewing industry utilizes approximately 14 percent of our domestic consumption in processing their premium beers. As they have already indicated, any increase in price would certainly force them to use less rice where possible, or even eliminate rice completely in their process. This would cause a further decrease in the overall use of rice on the domestic market.

Cereal manufacturers, baby food manufacturers, and other processors have expressed deep concern over an increase in the price of rice. We sincerely believe that they will withdraw the concentrated advertising which has been placed on rice products in the past, thereby causing a certain decrease in sales and an eventual decrease in the use of rice in their products.

Over the past years the rice industry has spent millions of dollars to promote rice in the United States and abroad. The results of this program have been a steady increase in per capita consumption and an increase in general consumption. Any increase in price now would certainly be harmful to this program and erase the many gains which have been accomplished through the hard work and determination of the industry.

We ask this committee to carefully consider the importance of rice in world politics. Rice used in the Public Law 480 and food-for-peace program has done much to strengthen the U.S. position in many areas of the world. Some Government officials have stated that other commodities could easily be substituted for rice under these programs. We all should realize that the majority of these nations are traditional rice eaters and have been for centuries. They want rice, and rice is the commodity that will win these allies for the United States. During these times of unrest we should maintain adequate supplies of rice and have it available for immediate use. Title III of this bill could reduce the amount of rice available causing a weakening of our position in vital areas.

In a recent study by the U.S. Department of Agriculture and reported in the June 14, 1965, issue of U.S. News & World Report, underdeveloped countries of Africa, Asia, and Latin America will experience a population boom of 1 billion people by 1980. During recent years, these countries have steadily been losing ground in their efforts to increase food production. The reasons for this are climatic difficulties, widespread illiteracy language dialect barriers, and extremely low per capita income.

There is no reason to believe that any of these conditions will change in the near future. It is almost certain that the United States and other developed nations will be obligated to fill the gap to prevent mass starvation in these underdeveloped area. This is certainly not the time to severely curtail an agricultural industry that is producing a food urgently needed by so many. According to this recent report, the danger of a world food crisis lies close at hand, not in the distant future.

We would like for this committee to realize that the rice industry cannot be turned on and off like a faucet. We have a high investment in machinery, land; we cannot afford to let this land and machinery remain idle for, say, a 2-year period when we decided we did not need rice, and then all of a sudden expect us to increase our production maybe 25 to 30 percent.

We have brought out many implications which could result if title III of this bill is made law. Any, or all, of these would eventually have to be adjusted by imposing restrictions on the producer and his net income. Rice is one of the most expensive crops in the United States to produce and no producer can accept a decrease in net income at this time and survive.

For many years the rice industry has cooperated with the Department and the administration in the development of sound, workable rice legislation which would be satisfactory to the industry and to the U.S. Government. The industry requested an opportunity to meet with the Department in an attempt to solve the many problems which title III will impose upon the industry and the Department. This request was denied.

We believe that title III of S. 1702 will only decrease the consumption of U.S. rice without a substantial savings to the U.S. Government.

We are of the opinion that present legislation on rice is adequate and is in the best interest of the U.S. Government and the rice industry. We sincerely urge this committee to recommend the removal of title III from this legislation.

Thank you.

The CHAIRMAN. You own your own land?

Mr. LYONS. No, sir; I am general manager of the Rice Growers Association. I represent the rice producers.

The CHAIRMAN. You do not grow it.

Mr. LYONS. No, sir.

Mr. CHAIRMAN. What is the average size of a farm in your area?

Mr. LYONS. The average size farm in Mississippi Delta is about 250 acres for rice.

The CHAIRMAN. How much of that is planted to rice?

Mr. LYONS. That is the rice allotment.

The CHAIRMAN. That is the rice allotment.

Mr. LYONS. Our average size farm is about, I would say, 700 acres.

The CHAIRMAN. Well, how much long grain rice do you grow?

Mr. LYONS. We produce about 90 percent long grain, primarily Blue Bonnet variety.

The CHAIRMAN. The rest is what?

Mr. LYONS. Medium grain, that is correct.

The CHAIRMAN. All right. Anything else?

Mr. LYONS. That is it.

The CHAIRMAN. Thank you very much, sir.

All right, Mr. Carter.

**STATEMENT OF L. C. CARTER, EXECUTIVE VICE PRESIDENT AND
GENERAL MANAGER, ARKANSAS RICE GROWERS COOPERATIVE
ASSOCIATION, STUTTGART, ARK.**

Mr. CARTER. Mr. Chairman and members of the committee, my name is L. C. Carter. I am executive vice president and general manager of the Arkansas Rice Growers Cooperative Association, a position which I have held for 21 years. I am also president of the Rice Council for Market Development, an organization that has been referred to by numerous witnesses today; I will have a little bit more to say about that further on in my testimony.

The organization that I represent is owned and controlled by over 5,000 farmers. It is a farmer-owned and controlled organization. It has members in Arkansas, Missouri, and Louisiana. It receives, dries, stores, and markets well over 50 percent of the Arkansas rice crop, virtually all of the Missouri rice, and a small amount of the Mississippi and Louisiana rice crop. It markets milled rice throughout the United States and in many countries of the world.

The Arkansas Rice Growers Cooperative Association, of Stuttgart, Ark., is recommending the elimination of title III from S. 1702, the Food and Agricultural Act of 1965.

This title would replace the highly successful rice program which has kept the supply and demand of rice in almost perfect balance for a number of years, with a certificate plan, which is untried, and would lead to disastrous results within the rice industry in a very short time.

On two different occasions, our board of directors have carefully examined title III of S. 1702 and are unanimously and unalterably opposed to it. Numerous meetings have been held throughout the State to explain and get reaction to this bill. We have yet to find one

farmer, banker, credit agency, businessman, or consumer in favor of this proposed legislation.

This statement summarizes our specific objections to title III of S. 1702, the administration's proposed plan for the American rice industry.

It is impossible to not repeat some things that have already been said, but I will try to make it brief and to the point.

First, and by far the most important, it levies a "new consumers tax" that would increase the price of rice at wholesale levels by at least 40 percent. In some cases, this increase would be in excess of 40 percent. People of low income are the major consumers of rice. The major share of this new tax would fall on the very people the President's "war on poverty" is designed to help.

The Agricultural Economics Department of the University of Arkansas recently made a survey of rice distribution in the United States to determine (1) what percent of the "table rice" is consumed by low-, medium- and high-income groups, and (2) what would happen to the consumption of rice, if the price were increased 6 cents per pound. They surveyed about 70 percent of the rice milled and distributed in the domestic market by Arkansas millers, and developed the information contained in the following tables. I will not read these tables, but merely give you the summary of results. I am happy to observe also that two other witnesses today gave different sources of information along this same line that corroborated this study. None of these studies has shown that the decrease in domestic consumption would be less than 25 percent.

Table I that I referred to here shows very clearly that 58 percent of the rice is consumed by low, 32 by medium, and 10 percent by high income families.

Table II shows that an increase of 6 cents per pound would cause an average reduction in consumption of rice of 25.8 percent—36.2 percent in the low; 29.6 percent in the medium; and 1.5 percent in the high income levels.

(The tables referred to follow:)

TABLE I.—*Distribution of the 1963 rice crop among regions and the estimated distribution by income groups*

Region	Distribu- tion 1,000 Hundred- weight	Income groups					
		Low		Medium		High	
		Per- cent	Hundred- weight	Per- cent	Hundred- weight	Ptr- cent	Hundred- weight
New England.....	250,900	75	188,175	15	37,635	10	25,090
Middle Atlantic.....	2,601,200	50	1,300,600	44	1,144,528	6	156,072
East North Central.....	1,062,500	60	637,500	30	318,750	10	106,250
West North Central.....	275,200	57	156,864	32	88,064	11	30,272
South Atlantic.....	2,379,700	59	1,404,023	29	690,113	12	285,564
East South Central.....	565,800	68	384,744	24	135,792	8	45,264
West South Central.....	2,231,200	65	1,450,280	25	557,800	10	223,120
Mountain.....	157,500	30	47,250	50	78,750	20	31,500
Pacific.....	3,277,000	58	1,900,660	31	1,015,870	11	360,470
Total.....	12,801,000	58	7,470,096	32	4,067,302	10	1,263,602

TABLE II.—*Distribution of the 1963 rice crop among regions if the retail price had increased 6 cents per pound*

[Shown in hundredweights]

Region	Income Groups			Total
	Low	Medium	High	
New England.....	169, 358	37, 635	25, 090	232, 083
Middle Atlantic.....	736, 140	1, 062, 122	156, 072	1, 954, 334
East North Central.....	369, 750	261, 375	100, 938	732, 063
West North Central.....	116, 079	52, 384	30, 272	198, 735
South Atlantic.....	982, 816	621, 102	274, 530	1, 878, 448

Mr. CARTER. Unlike wheat, where the certificate program adds perhaps less than 1 cent to the price of a loaf of bread, rice prices would have to be increased 5 cents or more per pound, at the retail level. This is true because only a small part of the total cost of rice is in processing.

2. The largest single domestic consumers of rice is the brewing industry. We are sure that the screenings—larger broken grains—now going to the brewers, will be shifted to food use for low-income people, in order to get the price low. This would reduce the quantity of rice now going to the brewing industry by approximately 50 percent and could result in the rice industry losing its entire market for brewers rice.

Everyone, including the U.S. Department of Agriculture officials, are agreed that none of the certificate costs could be passed on to brewers rice. This means that the entire cost of the certificates would have to be placed on “table rice” and the breakfast cereal industry.

Next to the brewing industry, the breakfast cereal industry uses the largest quantity of rice consumed in the domestic market. An increase of 40 percent to these outlets will certainly reduce the quantity of rice moving into this direction. Emphasis will shift from rice to other less expensive foods. These food industries, we are told, will stop or greatly reduce advertising and research on rice, and shift it to other products.

3. The administration of such a program would be very difficult. It would require the establishment of a projected yield, based on history, for each rice farm in the United States. Adequate records are not available to do this. Some farmers will exaggerate their production. This will result in lower projected yield figures for the vast majority of honest farmers. Rice farmers have had experience in this area before, and are not anxious to be subjected to its complications again.

Farmers fear unit controls, and this proposal provides for the controls to be placed on units. As you know, in the proposed legislation, the minimum allotment for rice is set at 60 million hundredweights. Existing legislation sets the minimum at 1,652,596 acres. Under existing legislation, the national rice acreage could be cut not more than 10 percent. Under the proposed certificate legislation, and based on current national field yields, the national acreage could be cut over 20 percent the first year, and it would go lower as per acre yields increased.

This would have a tendency to remove incentive to increase yields per acre, which have almost doubled in the last 10 years. This increase in yield is the only reason farmers have been able to stay in business with rising costs and reduced prices.

4. An even more difficult area of administration is at the processing level. Weights, milling yields, percentages and kinds of broken all present opportunities for an unscrupulous processor to take unfair advantage of the Government and other millers. The assessing and collecting of the tax on milling has many loopholes whereby records could be altered to the benefit of the miller. These practices did occur when the rice industry had a processing tax many years ago, and there is no reason to assume that it would not occur again.

The CHAIRMAN. You mean to say that cheating would be invited?

Mr. CARTER. Yes, sir. It is an opportunity because the keeping of the records and all would provide this opportunity. Mr. Dore did an excellent job in covering this point this morning.

5. The difficulties of administering a certificate program, such as mentioned above, as well as others which may arise, will certainly bring about increased costs which could offset a substantial part of any anticipated savings of such a program.

6. We do not support different values on certificates for varying size farms nor any other form of limitation of payments to individuals in farm programs. Farm programs should be economic, not social.

It has been stated that the rice program, in comparison with other commodity programs administered by the U.S. Department of Agriculture, is an expensive program. Rice is an expensive crop to produce, but still is one of the best food bargains the U.S. Department of Agriculture obtains. On an acre basis, it produces 3.5 times as much food as wheat, and requires little processing to be ready for consumption.

Furthermore, an analysis of the present cost of the program, one will find that rice is being used to accomplish the objectives of many programs of national and international policy, which do not in any way relate to agriculture, except that these programs are and have been deemed necessary and good for our country. Yet, the costs are charged directly to the program initially established to benefit American farmers. We are specifically referring to Public Law 480, food for peace and other foreign programs, which have been effective in meeting human and economic needs in many countries of the world. Today, approximately 40 percent of our Government's economic development assistance overseas is in the form of agricultural commodities. Rice plays an important role in these programs. Public Law 480 generated currencies are paying U.S. overseas expenses, conserving dollars and strengthening our balance-of-payments position. Even here at home, agriculture is charged with the cost of rice used for school lunch and welfare programs.

We support the programs, but raise the question: Should these costs be charged against the American producer? We say, no.

Now, let us look further at costs. Will the American citizen save money under the proposed rice program? An analysis applied to last year's production is as follows:

	<i>Hundredweight</i>
1964 rough rice production-----	73, 113, 000
1964 milled rice equivalent-----	50, 000, 000
1964 domestic consumption (40 percent of milled)-----	20, 000, 000

The U.S. Department of Agriculture estimates rice price increase at an average of 5 cents per pound under certificated programs—20 million hundredweight times 5 cents per pound equals \$100 million.

The U.S. Department of Agriculture estimates a savings of \$40 to \$50 million to taxpayers under certificate program. Yet, it will actually add \$100 million in cost to American citizens, who consume rice.

Isn't \$100 million a high tax for poor people, who consume the major portion of the domestic rice, in order to save all taxpayers \$50 million?

Further, the University of Arkansas' study, referred to earlier, as well as the other two studies referred to by other witnesses, indicates this "food tax" should result in a loss of approximately 25 percent of the domestic market or 5 million hundredweights of milled rice—equivalent to about 6,600,000 hundredweights of rough rice.

What will be the disposition of this rice? It can only move in either of two directions—the export market or into the Commodity Credit Corporation loan. If sold in the export market, the Government will assume the total cost, under the present system of keeping books, that is the cost of the certificates to the farmer, the export subsidy, if any, and the Public Law 480 cost. It is unlikely that certificated rice would move into the dollar export markets, since there will undoubtedly be sufficient quantities of noncertificated rice to supply these markets.

Should this rice move into the Commodity Credit Corporation loan, the Government would bear the cost of the certificate to the farmer, plus the loan value of the rice, plus storage, until disposed of by Commodity Credit Corporation. Until Commodity Credit Corporation sells or otherwise disposes of the rice, it would be in a carryover position, thus contributing to a decrease in acreage the following year.

If this rice moved into the export market direct with the use of Public Law 480 funds, or into Government loan and subsequently into exports, the cost to the Government would be the farmer's certificate at \$2.90, and I am using figures here that the Secretary used in his testimony, the cost of the farmer's certificate at \$2.90, plus the loan at \$3.60 or a total of \$6.50 per hundredweight. If the Secretary supports the domestic market at 100 percent of parity, which he has indicated he would do the first year, the 6,600,000 hundredweights of rough rice times \$6.50 per hundredweight, which was the parity at that time, would amount to \$42,900,000—actually parity is now \$6.62 per hundredweight, having moved up 0.12 since the Secretary used the price estimates referred to here. This direct cost to the Government is equal to the amount the proponents of this bill proposes to save annually.

Had we been operating in 1964 under this proposed legislation, this additional 6,600,000 hundredweights of rough rice, in a carryover position, could have reduced acreage by 161,172 acres, under the administration's proposed bill.

Now, at this point I would like to read into the record, if I may, a brief letter which I have received from the Grand Prairie Implement Dealers Association of Stuttgart, Ark., with their headquarters in Stuttgart, Ark., that deals with another phase of this proposal that I do not believe has been touched on today.

This letter is addressed to me under date of June 21, 1965 :

I understand you will, in the near future, be appearing before the Senate Committee on Agriculture, in relation to title III of S. 1702.

Mr. Carter, I don't know how this can be accomplished, but somehow, the members of this committee must be made to realize the far-reaching effects of such proposed legislation.

As you know, the entire economy of this area is based on the rice industry. Even now, the fear that title III of S. 1702 might be enacted, has caused prospective purchasers of farm equipment to delay and defer needed replacements of machinery.

I have found this among all dealers in this area, and they are worried and confused as to how to plan for the future. I am sure their concern has been forwarded to their suppliers and manufacturers, which could be reflected by a resulting decrease in production and manufacturing labor force.

Many times, the effect of such legislation is much more far-reaching than we first realize and I hope you will be successful in conveying this to the committee.

I wish I knew the answer to the so-called farm problem, but I don't, however, I do know my customers, myself, and fellow implement dealers cannot stand a reduction in farm income.

I apologize for this lengthy letter, but I did wish you to know of our deep concern.

This is signed by Wayne Franzen, president of Grand Prairie Implement Dealers Association.

The rice farmers, processors, and allied industries are waging a successful program of advertising, promotion, and utilization through the Rice Council for Market Development. As I indicated a moment ago, that I am president of the council this year, and I will not repeat a lot that has been said about the efforts of this organization, other than to say that these efforts, Senator, have resulted in a 35-percent increase in the domestic per capita consumption of rice, during the last 4 years. We are positive an increase in price of 40 percent, as referred to above, would seriously affect the good work this organization is doing.

In addition to the efforts of this organization in the domestic market, it has recently taken over and is now operating the market development program in conjunction with the U.S. Department of Agriculture in some eight or nine foreign countries, and, as has been said on numerous occasions today, the dollar business that has been developed in Europe, in Africa, and in other areas of the world has and, is substantially reducing the amount of rice that will now and in the future need to go into Public Law 480. This is important and significant, and something that we certainly hope that we can get across to this committee, because this, perhaps, is one of the areas that can be very effective in the reduction of the cost of this in terms of dollars.

For example, last year, I do not know the exact figures, but rice was sold for dollars in over 100 countries of the world, in Europe, in Africa and in other dollar areas, in excess of 5 million hundredweights of milled rice has been marketed this year, and this quantity is going up. As Mr. Gaines said this morning, this increase is some 10 or 15 percent this year in excess of last year.

The CHAIRMAN. All that rice is sold at world prices?

Mr. CARTER. At world prices, but it does carry a subsidy, but this is much less than the total cost of Public Law 480.

The CHAIRMAN. I think the average cost to the Government now is about \$1.60 per hundredweight.

Mr. CARTER. Something in this nature, very small compared to the total cost when it goes out under Public Law 480.

The CHAIRMAN. Rice is one of the commodities that we produce that is exported more heavily, I presume, than any other.

Mr. CARTER. That is correct, and there is a reason for this.

The CHAIRMAN. Yes; I know.

Mr. CARTER. Rice is the most important food in the world, and more people depend on it as their primary source of energy than any other food in the world. There are areas in the world where our political problems are critical that are very heavy rice consuming areas.

Expressions to this point have been directed to S. 1702. Even though S. 2111 is more desirable, in some respects, than S. 1702, we can find little to recommend it. Ultimately, disastrous results to the American rice industry would occur from the enactment of either bill. Under S. 2111 the paralysis of the domestic rice industry would just be prolonged by a year or two; however, paralysis would be more lasting since S. 2111 is permanent legislation, whereas S. 1702 would revert back to the present legislation at the end of 2 years. The principles of a consumer tax is embodied in both proposals.

In conclusion, gentlemen, we want to point out that the certificate plan is not workable; it will (1) drastically reduce the domestic distribution of rice, thereby leading to a reduction in farmer income; (2) kill the brewers market and substantially reduce the breakfast cereal markets for rice; (3) the administration of this program, both on the farm and in mills, would be very difficult and expensive; and (4) that the cost when compared on a realistic basis will save little, if any, money.

We strongly recommend that title II of S. 1702 be removed from the bill; that no legislation employing the two-price principle be enacted; and that the rice industry be permitted to continue operation under present legislation.

I would like to say that Senator McClellan and Senator Fulbright either have or will make presentations in opposition to this legislation.

The CHAIRMAN. They presented statements this morning.

Mr. CARTER. I knew they were going to do this.

The CHAIRMAN. Mr. Carter, what percentage of the rice produced in Arkansas is long grain?

Mr. CARTER. It is about 50 to 53 percent. The balance is medium grain. We have a very small amount of short grain.

The CHAIRMAN. What is the average size of the farm?

Mr. CARTER. The average size of the rice allotment, is this what you are asking, or the size of the farm?

The CHAIRMAN. Well, the farm, and then——

Mr. CARTER. I would say the average farm in Arkansas would be in the neighborhood of 400 acres, the average allotment would be about 80 acres.

The CHAIRMAN. All right.

Mr. CARTER. This is not a large farm in terms of rice operation. As you know, it takes a substantial unit in order to be economical because of the expensive machinery, irrigation, et cetera, which means a very expensive operation.

The CHAIRMAN. Thank you, sir.

(Brief recess.)

The CHAIRMAN. The committee will please come to order.

All right, sir.

Mr. CARTER. Do you have any further questions?

The CHAIRMAN. No.

You may proceed.

STATEMENT OF ROBERT H. SMITH, PRESIDENT, ARKANSAS RICE GROWERS COOPERATIVE ASSOCIATION, WALNUT RIDGE, ARK.

Mr. SMITH. Mr. Chairman and members of the committee, my name is Robert H. Smith, an Arkansas rice farmer for the past 30 years.

I serve as president of the Arkansas Rice Growers Cooperative Association which, with its associated rice drying organizations, have a membership of over 5,000 rice farmers. The opinions that will be expressed represent as nearly as I can determine the unanimous position of these farmers who produce more than half of the Arkansas rice crop, as well as that of myself as a farmer, a citizen, and a taxpayer.

I serve as an officer in a small country bank, as an official of a county retail implement company, as a trustee of the University of Arkansas, and as a member of the Secretary of Agriculture's Advisory Committee for Rice. I recount this to you to sustain the fact that the opinions that I shall present against title III of S. 1702 represent the thinking of a substantial segment of the Arkansas rice industry.

This is simply a proposal that is full of fallacies and it will not do what is proposed.

The stated purpose is "to reduce cost to Government and to maintain farm income." A noble purpose, and would be some achievement if it could be realized—but this approach is impossible.

Farm income will be reduced because the domestic food markets are battlefields of competition. Rice, alone of the carbohydrate foods, has and is continuing to show a per capita increase in consumption. This has been brought about by intensive promotion and advertising financed by the producers, handlers, millers, jobbers, and allied industries. Price increases such as would be necessary would cause a substantial reduction in the use of rice by the cereal and breakfast food markets. American firms purchase over 3 million hundredweights of rice annually for the breakfast cereal market and this bill proposes to raise their cost about \$15 to \$18 million annually—consumers simply will not accept this increase in price.

An important part of the rice trade is in brewers rice. We have already seen the larger part of this market turn to inferior and cheaper products. This proposal will just about finish this trend.

Millers of rice will be required to purchase certificates to sell rice in the domestic markets. In order that this be related to the rough rice produced by farmers someone has to determine the yields of whole grain, broken, and brewers rice. No easy chore. Industry will not want this set by Government and I feel sure that Government will not allow the millers to determine yields. This is an area where small variations can make considerable difference in money.

Mr. Dore touched on this most ably in his testimony this morning.

Contention is made that the rice program is very expensive, in relation to acres, but this is simply an exercise in figures. Rice produces about 3½ times the number of bushels per acre as wheat, so if reduced to units, the rice program is cheaper than that of most other food grains.

Rice for domestic donation, rice for the school lunch program, rice for foreign relief, rice for food for peace, as well as export subsidies, freight in American bottoms, and indeed interest on Public Law 480 credit sales even after the sales themselves have been charged, are all charged to the cost of the rice program. Nowhere do we find any credits given to agriculture for these worthwhile programs. This type of accounting would hardly be acceptable to Internal Revenue, if presented by a private citizen.

A blending of the proposed domestic price and the export price, even under the most optimistic approach, will reflect a reduction in acreage and price, which could ultimately be substantially less than 70 percent of parity. No industry in America could be expected to survive with such returns, yet some propagandist would have you believe that farmers are "fat cats" and should have a skinning. Farm debts have increased from \$23 billion at the beginning of 1959 to \$35.7 billion at the end of 1964; an increase of 55 percent. In my area of Arkansas, many production costs are paid out of the next year's crop. This is not a healthy situation.

This proposal sets units of production at farm level as a control, instead of acres, thus destroying the incentive for increased yields per acre. This incentive is the very thing that makes American agriculture the Aladdin lamp of the world and such destruction would be regression in a world that many economists, including those of the Department of Agriculture, say will soon know famine in great areas.

The section of this proposal that gives preferential treatment to the lowest units of production is social treatment that will not produce the desired results. In my area of Arkansas, the small acreages are usually rented by larger producers and are thus assembled into blocs large enough for economic operation. If a farm is not an economic unit, such devices cannot insure its success; they merely aggravate the problem. A 10-acre allotment will not support a family or allow the ownership of the tools necessary for production.

The change of method by which acreage allotments will be determined first requires a reference to hundredweights. This in itself is a major departure from the minimum acreage in the present law and leaves little security in years ahead. Domestic certificates are to be based on so-called projected yield of the farm or farmer. This will be determined by the Department of Agriculture and, as has been true in the past, is most difficult, if not an impossible thing to do with complete fairness and equity. It is a sad thing to relate, but usually the biggest liars fare best.

We can see nothing in this proposal but difficulties and a reduction in farm income. I wish to remind the gentlemen of the committee that farm income is now too low. Further reduced income means drastic reduction in goods and services purchased by farmers from the suppliers in their areas. The probable reduction in taxes in these areas could well exceed any savings anticipated by the administration. The loss of business will be felt by truck manufacturers, the oil industry, manufacturers of farm implements, and many others and will extend to the labor forces employed by these people.

Each of the several States have civil statutes that protect the interest of tenants, and why the rice industry is singled out to be the only one that is to be subjected by the Federal Government to penalties for

infringement is truly beyond our understanding. It is generally true that a good and competent tenant is a "gem" that is to be treasured and preserved, not abused. As a matter of fact, the laws of Arkansas give every safeguard to tenants and this is as it should be, so there is no call for Federal intervention that would make the Department of Agriculture prosecutor, judge, and jury.

This proposal, from beginning to end lodges with the Secretary of Agriculture unprecedented power over the production, milling, and marketing of rice. We have great confidence in Secretary Freeman, but we believe this is too much power to give to any individual.

Now let us get down to what this thing really does. It proposes to cut cost to Government by some \$40 to \$50 million annually, but, gentlemen, it does not end there. The proponents say the rice program costs \$180 million per annum. Let us take the \$50 million from the \$180 million—we have \$130 million left. Now the domestic consumption is roughly 20 million hundredweights of milled rice and the proponents say that this will increase the price 4 to 6 cents per pound. Let us use 5 cents per pound or \$5 per hundredweight. This is an increase in cost to the American consumer of \$100 million. Now let us take the \$130 million they say will be left to the taxpayer and add the \$100 million extra they propose to pass to the citizen and we have under this proposal a program that costs the American citizen and taxpayer \$230 million, instead of the present \$180 million, they claim.

Now, who will pay the major share of the increased cost of \$100 million? The poorest people in America. The lowest income groups in America are the largest consumers of rice. These groups are located in the great areas of New York City, Chicago, Southeastern United States, Puerto Rico, and Hawaii.

Under the poverty program, I am told that Puerto Rico is to receive some \$7 million. This food tax on rice will cost them some \$15 million.

The Congress has just reduced the excise tax on luxury items. Is it reasonable to follow with an increase of food tax on the lowest income group in America. How can this be explained? I do not, I cannot believe, that you can seriously consider this proposal.

In short, we can find nothing in this proposal to recommend it. We find much that is impractical of administration. We see reduction of farm income, a shrinking of markets to which the farmers have made substantial contributions; we can see a tax on the very people who can least afford it. We are afraid of it. We don't want it. We respectfully ask that you leave the rice program as it is and completely delete title III from S. 1702 and that you not consider any other proposed legislation which embodies a consumer tax on rice.

Mr. Gaines made a very revealing statement in his statement before the committee in which he said that the dollar export market had gained 1 million bags of rice this year, which is at a much reduced cost, as has already been pointed out.

We believe that the program should be left as it is. If we have a factual accounting of the costs of the program, and given just a few years of opportunity, we will be able to transfer a substantial amount of this rice from the Public Law 480 program over to the dollar export portion; Senator, we believe that will help add immeasurably to our balance-of-payment costs and help preserve the gold supply of this country.

It will certainly keep from putting a lot of rice farmers into the poverty program, and we feel as if Puerto Rico is under this thing, we do not need to get in there on the same basis.

We appreciate this opportunity to state our carefully considered opinion of this matter, and we wish to thank you for the opportunity to testify.

If you have any questions I would be happy to try to answer them.

The CHAIRMAN. Well, you say you have been in the rice business, growing rice for 30 years.

Mr. SMITH. Yes, sir.

The CHAIRMAN. What is your allotment? Do you have any tenants?

Mr. SMITH. I have an allotment of 513 acres. I have three tenants that share that allotment with me and on that farm, Senator, there are about eight families that live out of income of that farm, including myself.

The CHAIRMAN. I see. The average size of the farm, I think you gave us that, did you not?

Mr. SMITH. The average size allotment in my county, I know, it is almost correct, I believe it is to be 87 acres, the last time I heard of it.

The CHAIRMAN. That is rice acres?

Mr. SMITH. Yes. My allotment is larger than that, but a lot of others live out of it, too.

The CHAIRMAN. On an allotment of 87 acres for rice, I presume the acreage is about what 400 or 500 acres?

Mr. SMITH. It is somewhere between 20 and 25 percent, I would say, on the average; yes, sir.

The CHAIRMAN. Let us say on your farm, how much of it, how much of the rice production, is long grain?

Mr. SMITH. About half.

The CHAIRMAN. About half.

Mr. SMITH. Just about half.

The CHAIRMAN. The rest is medium?

Mr. SMITH. Yes, sir. We tried to plant about half long grain and half medium grain. That divides the harvests; it gives us a better opportunity for planting, harvesting, and for watering.

The CHAIRMAN. Where do you get your water from, deep wells?

Mr. SMITH. We get water from wells.

The CHAIRMAN. How about your water table, is it getting lower?

Mr. SMITH. Our water table—we are fortunate there. We have a water table that is relatively stable.

The CHAIRMAN. Stable.

Mr. SMITH. Yes.

The CHAIRMAN. Well, you are lucky.

Mr. SMITH. Yes.

The CHAIRMAN. You must not be far from the river.

Mr. SMITH. Well, we are not.

The CHAIRMAN. Thank you. Any further questions?

Mr. SMITH. Thank you, Senator.

The CHAIRMAN. I wish to place in the record a letter addressed to Senator Talmadge, dated June 11, 1965, and signed by Mr. J. O. Robertson, relative to the wool program, and have this placed in the record where we discussed wool.

Also a telegram addressed to me under date of June 24, signed by Ronald L. Botkin, manager, Southern States Wool Marketing Service. That will be placed in the proper place in the record.

(The documents referred to appear on pp. 599 and 600.)

The CHAIRMAN. You may proceed, Mr. Alderson.

**STATEMENT OF H. M. ALDERSON, SECRETARY-TREASURER,
PRODUCERS RICE MILL, STUTTGART, ARK.**

Mr. ALDERSON. Mr. Chairman and members of the committee, I am H. M. Alderson. I am secretary-treasurer of the Producers Rice Mill, Inc., of Stuttgart, Ark.

This corporation is a cooperative drying, milling, and marketing organization owned and operated by 728 rice farmers who reside in the general area known as the Grand Prairie region of Arkansas.

I am also a technical adviser to the National Rice Advisory Committee. I would like to add to this statement that this bill was written without the advice of that committee.

If I may, I would like to ask that you submit my written statement as a part of the record and give me the privilege of making a very short oral statement about what I consider the feeble part of this legislation to the rice business.

The CHAIRMAN. Without objection that will be done, sir.

Mr. ALDERSON. I have been in the rice business for the past 47 years, and in all of that time——

The CHAIRMAN. You must have started as a baby.

[Laughter.]

Mr. ALDERSON. In all of these years I have never found the rice business to be totally for or against anything. They are always split.

I can understand this seeming miracle because I heartily agree with the industry that this bill will have fatal consequences to the rice industry.

The worst part of it is the tax angle. I do not believe that you can put a tax that will amount to some 30 to 40 percent on a retail price of rice without having serious, if not fatal consequences to the distribution of rice.

I cannot improve on the statement made by the representative from Kellogg. I think he really convinced me that we were going to lose the cereal business.

Now, the cereal business in the United States amounts to 3,100,000 pockets of rice, which is 11.4 percent of our national distribution.

On the brewers end who use 4 million pockets of rice, which is 14.9 percent of our national distribution, the picture is not quite as simple as that on the cereal end. It has two complications.

Brewers' rice, because of better varieties in the field, better farming methods, better milling methods, better milling machines, the available amounts of brewers' rice has been getting less and less every year. We have only three major outlets left in the United States for brewers' rice. Coors Brewery, which is 100-percent rice, Anheuser-Bush, 100 percent, and Schlitz, which is using a mixture of rice and corn.

Now, these brewers are having a very hard time staying as customers of the rice business because of scarcity of supplies and price.

Rice is higher than corn, and there are a lot of incentives to brewers to go to the use of corn, but we still have those three customers.

If this bill is passed and we attempt to pass any part of this cost to the brewers, I think we will lose them as customers overnight.

There is another threat that I think is just as serious. Even if we do not pass this cost on to the brewers but pass it on in its entirety to the domestic table users of rice, there is another threat that I think will equally kill our brewers' customers. Any time rice is extremely high, as during wartime or if this artificially high price is put on rice, the poor people in the United States are going to start using screenings, that is quarter grains.

Now, those screenings today make up about 50 percent of the rice that is going to brewers. Once you give table rice an artificial raise——

The CHAIRMAN. What do screenings sell for now?

Mr. ALDERSON. They are going in the brewers, Senator. Screenings and brewers, which is about 50 percent each, sell to the brewers for \$4.25 bulk.

The CHAIRMAN. Per hundred?

Mr. ALDERSON. Per hundredweight.

Now, if you raise the price of rice 6 cents a pound, then the poor people I am selling rice to in the United States are going to demand that I again sell them screenings. I have a package that I used to pack screenings in. Nearly every mill in the United States has a packet of that kind. When my customer demands that I pack rice in that bag again that means that half of the brewers' supplies will disappear, and the brewers will quickly go out of the brewery business.

On the domestic side, you hear a great deal of argument and supposition about how much domestic consumption we will lose from table grade rice, but it is certain we are going to lose some.

Rice is eaten in the United States by poor people. The poorer they are, the more rice they eat.

They do not have to eat rice, they can go to corn. They can go to potatoes, they can go to macaroni, they can go to other foods, and once we give this artificial price raise, we are going to lose a great deal of domestic sales.

All of this together could amount to—well, the brewers took this business and the cereal business alone could be 26 percent of our national distribution. Any table quality rice business we lose in addition to this is on top of that.

As we lose these millions of pockets of distribution, that rice has got to be exported, so, as I visualize this, we will become more and more wards of the Government, and I suspect in a few years under this law we will be back in Washington trying to defend the cost of the rice program. I think that is inevitable.

I agree with Mr. Dore that on the administration side of this law it is a nightmare. I do not believe that the Department of Agriculture can put enough men in the field to police this act. It is wide open in many different directions.

This law also gives the Secretary of Agriculture unprecedented power. He will be a czar of the rice business. When you talk of maximums that he could give the rice business, that is all right. But if you think of the minimums, he will become a czar of the rice business.

I have always hoped for maximums in my business dealings, but I also am prepared to live with minimums, and I do not think that the Congress should delegate this type of authority to anybody. It should be retained in Congress.

The only reason we have been told that this law was necessary is because of costs, and no one has a detailed breakdown of these costs, but I have a rather sketchy balance sheet here that was put out by the Department of Agriculture, and if you will take up the cost of the domestic donation programs and foreign donation programs, of the \$179.3 million that they say the rice business is costing them, \$149.6 million of that is domestic donation and Public Law 480 costs. That leaves \$30 million.

And, strangely enough, that is the figure that the Secretary of Agriculture told a group of us in Arkansas that the Department needed to save out of the rice business. Those were the very figures he quoted, \$25 to \$30 million.

One other bad feature, I think, of this law is, stripped of all of its titles, getting down to, the bare bones, it is a tax. It is an attempt to transfer the cost of domestic and foreign welfare programs from the general taxpayers to a selected group of taxpayers in the United States who, unfortunately, happen to be the poorest people in the United States, the very people that the poverty programs, the Appalachia program, and all the rest of the programs designed to help the poor people, this tax is directed at those people.

Every survey made in the rice business has shown that rice is consumed by poor people.

I cannot believe, or it is hard for me to believe, that the same Congress which has recently repealed excise taxes that will allow my wife to buy a fur coat without taxes is going to consider passing what could be an excise tax on food used by the poorest people in the United States.

I think this was a quickly conceived, ill-thought-out bill. I do not think any consideration was given to it when it was being written, to its effect or repercussions on the rice business.

Gentlemen, I hope you will give it an adverse report after you have considered it. Thank you.

The CHAIRMAN. I don't think you need worry about that. [Laughter.]

All right. Mr. Cobena. Proceed.

STATEMENT OF TED COBENA, ACADIA PARISH POLICE JURY, CROWLEY, LA.

Mr. COBENA. Mr. Chairman and gentlemen of the committee, I am Ted Cobena, a rice producer and member of Acadia Parish Police Jury. I appear before you today as an official representative of the Acadia Parish Police Jury.

I sincerely appreciate the opportunity to express our views before this committee.

Our organization has reviewed and discussed this proposed certificate plan for rice and have agreed that it would adversely affect the economy of Acadia Parish.

This parish is one of the largest rice-producing parishes in the State of Louisiana.

The natural resources of Acadia Parish lends itself to the production of rice and is not suited to a diversified agriculture. The economy of the parish is dependent, to a great extent, on the rice crop each year. We have experienced in the past that when the rice crop was short, it had a definite effect on the entire economy of the parish.

I question the provisions of the proposed certificate plan, since I feel this plan would eventually result in a decrease in acreage and, consequently, a decrease in gross income to the farmer. If this plan is passed, as I understand it, rice farmers would be dependent on domestic markets for a portion of their income. The plan could eventually cause a reduction in the domestic markets and, consequently, a reduction in income to the farmer.

Any reduction in income to the rice farmers of Acadia Parish reduces the total economy of our parish.

I call the attention of the committee to the fact that Acadia Parish has been approved and is participating in the food stamp plan in an effort to help the poor people in the parish. We are sincerely interested in helping these people in any way possible, but how can a reduction in income to the parish be of benefit?

I would think it would be better not to disrupt their present means of income than to provide a certificate plan for their rice crop, and then have to give them additional food stamps.

I sincerely hope that you gentlemen of this committee will remove title III of Senate bill 1702 and give the rice industry sufficient time to review the problems and attempt to come up with a solution.

Thank you very much for your attention.

The CHAIRMAN. Thank you very much, Mr. Cobena. We are glad to have had you, sir.

Mr. Harrison.

STATEMENT OF VERNON L. HARRISON, MATAGORDA COUNTY RICE FARMERS ASSOCIATION, BAY CITY, TEX.

Mr. HARRISON. My name is Vernon "Red" Harrison, and I am a rice farmer and a former ASCS county committee chairman from Bay City, Tex. I represent the Matagorda County Rice Farmers Association, a group of 300 rice producers, farming 45,000 acres of the gulf coast of Texas.

The CHAIRMAN. How many farmers are there?

Mr. HARRISON. 300.

The CHAIRMAN. 45,000 acres?

Mr. HARRISON. Yes, sir.

Our Association has only one function, the orderly marketing of the rice we grow and to represent our farmers at hearings such as this.

We thank you for this opportunity to be heard.

First, we would state that our farmers are opposed to the rice section of S. 1702, also known as title III of H.R. 7097. We are fearful of the unlimited power given the Secretary of Agriculture by this bill, and of the subsequent regulation which may be issued by the Department of Agriculture as they attempt to interpret this proposed act of Congress.

We believe the present law is adequate to operate the rice program.

Second, we would like to insert into this hearing the words of the Secretary of Agriculture when he presented the bill before the House Committee on Agriculture on April 6, 1965, and when he stated the purpose of the bill, and I quote :

To reduce the cost of farm commodity programs in order to free more public resources for the war on poverty, for education, for housing, and for many other programs designed to help people in rural and urban areas.

We ask you why has the administration singled out the farmers (and most certainly rice farmers) to take a cut in income to supply a source of funds for public welfare programs. If the administration had proposed to cut our national budget, and our national debt, by \$50 million, we believe only a few rice farmers would have howled, but as the Secretary states, they only mean to shift this amount of our Government spending program from the rural area to other areas. We do not believe this is just for the proud people of Puerto Rico and Hawaii and our heavy rice consuming areas in New York State, the Carolinas, Louisiana, Texas, and Mississippi.

I would like to point out here, varying from the written statement, that it has been so ably pointed out today, that regardless of what program exists, if we do not have at least a dual system of bookkeeping, we cannot relieve the visible pencil burden that will show against our program. We feel like, as Mr. Blair has stated, that if we had no program at all, it would run somewhere around \$60 an acre under the present bookkeeping system, and we feel that we can cut \$50 million under the present plans if that is necessary with the program that we have if we are given the chance to sit down. I did not have an alternate plan to cut the \$50 million.

Third, we do not approve of the idea in this bill to set up a bonus for small rice allotments. In Texas, the economic farm unit is at least 150 acres. The small allotments do not represent individual farm units, but are generally held by people who acquired small allotments at the beginning of the program, or by inheritance, and who have held on to them and do not actually farm the allotments, but farm it out for a 10- to 15-percent share of the crop with an actual producer.

In most cases they are landowners who hold the land, and the allotment, and do rent as a tenant farm, and also have an allotment with the land.

The CHAIRMAN. You say the majority of them are in that category?

Mr. HARRISON. No, sir. The majority of the small allotments that are uneconomical allotments are treated in that manner.

The CHAIRMAN. What percentage of your allotments are held by the individual who has no land?

Mr. HARRISON. What percent? Well, let me say that 90 percent of the allotments in Matagorda County is farmed partly, in part or all of owned land.

The CHAIRMAN. In other words, they lease the land?

Mr. HARRISON. Yes. My brothers and I farm, and we farm as tenants all together.

The CHAIRMAN. But you have your own allotments and you can transfer them anywhere you want to?

Mr. HARRISON. Yes; that is right.

The CHAIRMAN. How many acres have you as an allotment?

Mr. HARRISON. I have four brothers, and four of us have 933 acres, and we participate—the banker matches us and we farm on the half with him, and we also pay 10 percent for some other allotment, and we farm, have around 1,400 actual interest acres. Now then, we have to farm over 2,000 acres to do that.

The CHAIRMAN. What do you mean that you share half and half with the bank? Does the banker own the land?

Mr. HARRISON. Yes, sir. He will own the land and half the allotment, and he matches my allotment.

The CHAIRMAN. Does he pay for half the fertilizer?

Mr. HARRISON. Yes, sir. He pays for half the fertilizer, half of the——

The CHAIRMAN. Labor.

Mr. HARRISON. Half of the harvesting expenses. He pays for all the water, all the seed. It is an economical unit for me.

The CHAIRMAN. You consider that just?

Mr. HARRISON. I farm both ways.

Mr. CHAIRMAN. I see.

Mr. HARRISON. I have farming on half with me and I farm with halves on other people. I feel like it is almost an even swap.

The CHAIRMAN. All right. Thank you very much, sir.

Mr. HARRISON. Let me say, I have just a little bit more——

The CHAIRMAN. All right. I'm sorry.

Mr. HARRISON. Finally, it has been pointed out, that if we do not accept this new program, we must certainly face acreage and price support reductions under the present act. We believe that if the Government does not need our rice to combat world hunger and world need, if rice is not the important weapon of peace we have been told it is, then, there is certainly no need to grow excess rice. But, remember, today we have no surplus of rice with the present acreage allotment and very little rice is under Government load today.

In any event, our Texas rice farmers would appreciate the opportunity to submit their ideas on any rice program which is to be put into effect by democratic process, and then, we will stand with the majority, as this is the tried and proven way of doing things in this great country.

The CHAIRMAN. Would you be able to tell me what percentage of the rice grown in your county is long grain as compared to medium and short? Have you any idea?

Mr. HARRISON. I would say that this year 75 percent of all of our rice is long grain type or medium grain type rice.

The CHAIRMAN. Medium grain?

Mr. HARRISON. It is No. 2 grade. It is the Blue Bonnet type or the Bonnet type rice.

The CHAIRMAN. What is the differential between that and short grain? In other words, if the average is \$4.50, what would you get for your best rice?

Mr. HARRISON. Well, I believe that——

The CHAIRMAN. You say you are in group 2?

Mr. HARRISON. Group 2.

The CHAIRMAN. \$8.32.

Mr. HARRISON. \$8.32. I hated to——

The CHAIRMAN. That is all right. I do not expect you to keep it in your head. I just wanted to verify it. We have it here.

Mr. HARRISON. Yes.
The CHAIRMAN. Thank you. We will put that in the record. I just wanted to compare your experience with the statement that we put in the record earlier today.

Mr. HARRISON. I certainly appreciate this opportunity.
The CHAIRMAN. Thank you very much; glad to have you, sir.
(The information referred to above is as follows:)

Price supports, percentage of parity, and value factors

	1961	1962	1963	1964	1965 ¹
Price support level-----	\$4.71	\$4.71	\$4.71	\$4.71	\$4.50
Percent of parity-----	78.5	76.0	72.9	73.1	² 68.0

VALUE FACTORS

Group 1-----	\$9.16	\$9.03	\$9.03	\$9.20	\$8.92
Group 2-----	8.36	8.23	8.43	8.60	8.32
Group 3-----	7.56	7.43	7.43	7.60	7.32
Group 4 ³ -----	7.36	7.23	7.23	7.10	6.82
Group 5-----	7.11	6.98	7.08	7.05	6.77

¹ All groups reduced by 28 cents in order to reflect \$4.50 national average support price.
² May parity, \$6.62.
³ NATO in group 4.

The CHAIRMAN. Mr. Sandlin.

STATEMENT OF J. H. SANDLIN, ANAHUAC, TEX.

Mr. SANDLIN. Mr. Chairman and members of your committee, I may not make the best testimony offered today, but I am going to promise you right now that it will be the shortest.

I think the purpose of all the people up here is unanimous, and it is to find something better than title III. With all the testimony that has been offered and with your understanding and ability and sympathy for the rice industry, I do not think we have any doubt but what we will come up with something better.

I neglected to tell you that I am from Anahuac, Tex. I represent the majority of the rice producers in Chambers, Liberty, Hardin, and a great portion of Jefferson County.

I am president of the local rice growers association there, and president of a rice dryer, and have been for the past 15 years.

I have grown rice for about 25 years. I have been county agricultural agent for 16½ years in the rice producing area of the Texas gulf coast, and I would like to offer my services and the services of our people too, any time that we may be of benefit to you and your program or to the Department of Agriculture, in any way that we can help straighten out this mess. Thank you very much.

The CHAIRMAN. Thank you.
All right, sir.
Mr. Cranek.

STATEMENT OF LESTER J. CRANEK, GARWOOD, TEX.

Mr. CRANEK. Mr. Chairman and members of the committee, I have no prepared statement to present, and I will make statements of my remarks.

I am Lester J. Cranek of Garwood, Colorado County, Tex. I am a member of the USDA National Rice Advisory Committee, and a rice farmer who is trying to make a living for a wife and eight children from a rice farm as my only operation.

I am not a spokesman for any particular group except for a number of rice farmers who, like myself, are interested in trying to see that a way is continued by which we can continue to make a living for our families.

They are interested enough so that money was raised by donation to enable my coming here to testify in their behalf.

Mr. Chairman, I would like at this point to present the views of the majority of the farmers in my area. They would like to see the rice program continued as it is at present provided that Congress and the administration see fit to do so.

However, I am positive that they do not want, and cannot take, reductions in acreage and price support for 1966 and future years which appear to be imminent if rice legislation is not passed this session of Congress.

The small community in which I live will experience a quarter of a million dollar loss of net profit this year in their crop operation due to the lowering of the 1965 support price. This loss is off the top.

Most farmers cannot do anything managerialwise to offset this loss. Consequently, there will be \$250,000 less spent for new equipment, household goods, payments on mortgages, et cetera.

This reduction in support price in 1965 reduces rice farm income some \$17 to \$18 million over the entire rice farming area.

Combine this loss with one of greater magnitude for 1966 just cannot be conceived. Therefore, Mr. Chairman, if costs must be taken out of the rice program, we implore that you and your committee see that it not be done at the cost of returns to the producers.

The administration has submitted a plan whereby the costs are reduced. However, the producers in my area are opposed to this plan, and others that are similar in nature.

For 10 years producers have been operating under the same procedure of land leases and purchases and financial plans and management decisions and all other items of production have been built around the present plan we are operating under, and it would cause and create quite an uproar in a stable farming climate to abruptly change the administrative regulations.

Also many farmers feel that public image is important in farm programs and they believe that a certificate program for rice does not reflect this image.

The vast majority of rice farmers in America today have confidence that the administration and Congress can and will solve this problem in such manner that the small margin of profit that is left in rice farming will not be taken away from them.

Therefore, Mr. Chairman, it is my hope that legislation can be resolved that will be a good working bill for all segments of the rice industry.

In closing, I would like to say that my major purpose in appearing before the committee is to emphasize that rice farmers cannot and must not be forced to take additional loss in income, and that an alternate plan must be worked out.

It has been certainly a privilege to appear here and testify on what I can honestly defend.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, now, you talked about an alternate plan. Do you want to leave that with the committee? Have you any suggestions to offer?

Mr. CRANEK. Yes, sir, Mr. Chairman. I have an idea, an opinion, that a number of producers in my area have been working with.

First, let me say that we feel that it is reasonable to be unalterably opposed to a particular plan, but to be objective in such criticism, an alternate plan should be offered. This plan will briefly do so. It will take costs out of the program, it will allow farmers to operate under the exact same administrative regulations as they are presently doing, it will keep farmer earnings at the same level as now—and we feel—provide a healthy overall rice industry.

At this time I would like to present for the record a copy of the idea that we have been tossing around.

The CHAIRMAN. Well, can you tell us or tell the committee how this plan would work so that I can maybe—

Mr. CRANEK. Yes, sir. This plan would operate in this way.

The CHAIRMAN. Without objection this document will be put in the record at this point.

(The document referred to follows:)

AMENDMENT TO S. 1702

Strike out all of title III and substitute the following:

“TITLE III—RICE

“SEC. 301. The movement of rice from producer to consumer is preponderantly in interstate and foreign commerce, and the small quantity of rice which does not move in interstate or foreign commerce affects such commerce. Unreasonably low prices of rice to producers impair their purchasing power for nonagricultural products and places them in a position of serious disparity with other industrial groups. The conditions affecting the production of rice are such that without Federal assistance, producers cannot effectively prevent disastrously low prices of rice. It is necessary in order to assist rice producers in obtaining fair prices, to regulate the prices of rice in the manner provided in this title.

“SEC. 302. (a) During any marketing year for which marketing quotas are in effect for rice, beginning with the 1966 crop, all persons engaged in the processing of rice in the United States shall, prior to marketing any processed rice or removing processed rice for sale or consumption, pay to Commodity Credit Corporation a marketing fee of 2 cents per pound on all processed rice sold or removed for sale or consumption. The requirements of this section shall not be applicable to rice which is both produced and processed in Puerto Rico or in any State for which no acreage allotment is established under the Agricultural Adjustment Act of 1938. The Secretary may exempt from the requirements of this section (i) rice processed for donation, (ii) rice processed for use on the farm where grown, (iii) rice produced by a State or agency thereof and processed for use by the State or agency thereof, and (iv) rice processed for uses determined by the Secretary to be noncommercial.

“(b) Upon the exportation from the United States of any processed rice with respect to which marketing fees have been received, the Commodity Credit Corporation shall pay to the exporter an amount equal to the marketing fees received on such rice.

“(c) Upon the giving of a bond or other undertaking satisfactory to the Secretary to secure the payment of such marketing fees as may be required, and subject to such requirements as he may prescribe, any person required to pay a marketing fee in order to market processed rice or remove such rice for sale or consumption may be permitted to market or remove such rice without having first paid the marketing fees.

“SEC. 303. Each person who, on or after the beginning of the marketing year for each marketing year for which marketing fees are in effect, imports processed rice into the United States shall pay a marketing fee of 2 cents per pound on all processed rice imported into the United States.

“SEC. 304. The Secretary is authorized to take such action as he determines to be necessary to facilitate the transition from the program currently in effect to the program provided for in this title. Notwithstanding any other provision of this title, such authority shall include but shall not be limited to the authority to exempt all or a portion of the rice in rough or processed form in the channels of trade on the effective date of the program under this title from the requirement to pay a marketing fee, or to reduce the amount of the marketing fees to such amount as the Secretary may determine.

“SEC. 305. This section shall apply to processors, exporters, importers, and warehousemen of rice in rough or processed form. Any such person shall, from time to time on request of the Secretary, report to the Secretary such information and keep such records as the Secretary finds to be necessary to enable him to carry out the provisions of this title. Such information shall be reported and such records shall be kept in such manner as the Secretary shall prescribe. For the purpose of ascertaining the correctness of any report made or record kept, or of obtaining information required to be furnished in any report, but not so furnished, the Secretary is hereby authorized to examine such books, papers, records, accounts, correspondence, contracts, documents, and memorandums as he has reason to believe are relevant and are within the control of such person.

“SEC. 306. The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this title.

“SEC. 307. For the purposes of this title—

“(a) ‘processing of rice’ means subjecting rough rice for the first time to any process which removes the husk or hull from the rice and results in the production of processed rice.

“(b) ‘processed rice’ means ‘brown rice’ as defined in the United States Standards for Brown Rice, ‘milled rice’ as defined in the United States Standards for Milled Rice, including special grades of brown and milled rice, and such other rice as may be designated by the Secretary of Agriculture.

“(c) ‘United States’ means the several States, the District of Columbia, and the Commonwealth of Puerto Rico.

“(d) ‘import’ means to enter, or withdraw from warehouse, for consumption.

“SEC. 308. (a) Any person who violates or attempts to violate or who participates or aids in the violation of any of the provisions of section 302 or section 303 of this Act shall forfeit to the United States a sum equal to two times the amount of the marketing fees involved in such violation. Such forfeiture shall be recoverable in a civil action brought in the name of the United States.

“(b) Any person who fails to make any report or keep any record as required by section 305 shall be deemed guilty of a misdemeanor and upon conviction thereof shall be subject to a fine of not more than \$5,000 for each violation.

“SEC. 309. The Agricultural Act of 1949, as amended, is amended by inserting after section 107 the following new section:

“‘SEC. 108. (a) Notwithstanding the provision of section 101 of this Act, the level of price support for crops of rice planted for harvest in the calendar year 1966 and subsequent years shall be as follows:

“(1) If marketing fees are in effect, price support for rice shall be at such level, not less than 65 per centum or more than 90 per centum of the parity price therefor as the Secretary determines, taking into consideration competitive world prices of rice, the proceeds obtained from the payment of marketing fees under section 302 of the Food and Agriculture Act of 1965, and the other factors set forth in section 401 (b).

“(2) Price support shall be made available only to cooperators.

“(3) The level of price support for any crop of rice for which the Secretary determines that the total supply of rice for the marketing year will not exceed the normal supply or for which marketing quotas have been disapproved by producers shall be as provided in section 101.

“(4) A “cooperator” with respect to any crop of rice produced on a farm shall be a producer who does not knowingly exceed (i) the farm acreage allotment for rice on the farm or (ii) except as the Secretary may by regulation prescribe, the farm acreage allotment for rice on any other farm on which the producer shares in the production of rice. If marketing quotas are not in effect for the crop of rice, a “cooperator” with respect to any crop of rice produced on a farm shall be a producer who does not knowingly exceed the farm acreage allotment for rice.

“(b) It is hereby declared to be the intent of Congress that if the national acreage allotment for any crop of rice beginning with the 1966 crop is less than the national acreage allotment for the 1965 crop, the percentage of parity at which that crop should be supported should be the percentage of parity at which the preceding crop was supported increased by the same percentage points as the percentage decrease in the national acreage allotment.”

Mr. CRANEK. This plan would operate in brief, in such manner that administrativewise and regulationwise farmers would continue under the present program with current allotments in effect, with the same parity regulation.

The CHAIRMAN. Price support 65 to 90?

Mr. CRANEK. Yes, sir, 65 to 90 price support.

The CHAIRMAN. Minimum acreage 1,650,000?

Mr. CRANEK. 1,650,000 minimum acreage; yes, sir.

The CHAIRMAN. What would be the difference between your plan and the present plan?

Mr. CRANEK. The difference would be, sir—

The CHAIRMAN. I do not mean what we are discussing now but the law.

Mr. CRANEK. Correct, sir, I understand you, sir. It comes to this thing of recovering the cost, how we are going to take costs out on this plan, and therefore we propose a marketing fee of 2 cents a pound on domestic milled rice which will recover the amount necessary to reduce the costs.

Now, the thesis of this, Senator, is that we are faced with this thing. If we are going to take \$40 million of costs out of the rice program, the costs must come out of one of two places. It must either be borne by the rice producers, and if we reduce acreage and reduce parity this is a manner which will take costs out or it must be shifted to another area that will increase the price of price and return to the Government the fee that is necessary to reduce these costs.

Now, we feel that a lot of testimony has been given here today, and will be in the future, I am sure, that this is a cost on the poor consumers of America. But we feel as rice producers and people I am talking of, producers in my particular area, that we cannot be pulled down to a low level of price production in order for the needy people to be able to buy our rice at a price that would fit their budget because then we would be reduced to a substandard poverty conditions; conditions now are such that we are barely making in many areas a bare net profit on farming operations.

Now, then, this briefly, sir, is the way that this would operate. This would return the costs in that manner.

The CHAIRMAN. Let us say you plant 100 acres of rice. This 2 cents would be borne by you?

Mr. CRANEK. No; by the mills.

The CHAIRMAN. I know, but the mills would charge it to somebody.

Mr. CRANEK. Well, sir, of course, it would be charged to the consumer.

The CHAIRMAN. In other words, you would limit that to 2 cents instead of 6 cents?

Mr. CRANEK. Right, sir; 2 cents and, as we see it, sir, that we have a little spread. When rice sells on the market, at the marketplace, past experience has shown that it normally sells about 25 to 35 cents a hundredweight above loan support price, and we feel if this type of program was adopted that the mills, in buying rice would shave some of that above support price in order for them to not pass on the actual 2-cent milling fee to the consumer.

The CHAIRMAN. Are you familiar with the corn program in this bill?

Mr. CRANEK. No, sir; I am not. I am not familiar enough, sir, to make any comments.

The CHAIRMAN. Do you know what the cost to the taxpayers will be this year for this program, the corn program?

Mr. CRANEK. No, sir.

The CHAIRMAN. Only \$1.4 billion, and in that case it comes out of the General Treasury.

Mr. CRANEK. Yes, sir.

The CHAIRMAN. Everybody pays for it. I do not see why rice should be singled out either under the plan you suggest or the plan suggested by the Department, particularly when rice is consumed by so many poorer people.

Mr. CRANEK. Correct. I agree with you, sir. The thesis of this suggestion is only if moneys have to come out of the rice program.

The CHAIRMAN. Your 2-cent figure that you have just mentioned would be conditioned, I presume, on the acreage remaining as is?

Mr. CRANEK. Right, sir.

The CHAIRMAN. And the support price as is.

Mr. CRANEK. Right.

The CHAIRMAN. When you say support price do you mean 65 to 90 or the average price per barrel that has been fixed by the administration for the current year?

Mr. CRANEK. Well, it would be set at 65- to 90-percent parity.

The CHAIRMAN. You see if you make it 65 to 90 and they use the lower rate instead of getting \$4.50 you might go down to \$4.20.

Mr. CRANEK. Right.

The CHAIRMAN. You would not want that, would you?

Mr. CRANEK. No, sir.

The CHAIRMAN. You would want the price——

Mr. CRANEK. We have in this plan, sir, a proposal where the parity would not fall below the preceding year.

The CHAIRMAN. I see.

Mr. CRANEK. In the event that acreage cuts would be necessary to control supply, parity percentage will increase at the same ratio that acreage decreases to keep stable the farmer's income, the idea being——

The CHAIRMAN. In other words, the idea is to keep the farmer receiving on an annual basis the same income that he got last year or whatever year.

Mr. CRANEK. To keep his earnings up, sir, so that he can continue on in his farming operations.

The CHAIRMAN. That is the plan of the administration, but I doubt that the bill they proposed will do that. That is where the com-

mittee, of course, will have to get a few economists, I mean real economists, not those who juggle figures for us, people to do a good job.

Anything further?

Mr. CRANEK. No, sir. Thank you, sir.

The CHAIRMAN. Does anybody else wish to be heard?

If not, we will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 4:45 p.m. the committee recessed to reconvene at 10 a.m., Friday, June 25, 1965.)

(Additional statement on rice filed for the record is as follows:)

STATEMENT OF WILLIAM L. MCKINLEY, NATIONAL CANNERS ASSOCIATION
FREMONT, MICH.

Mr. Chairman and members of the committee, my name is William L. McKinley. I am secretary-general counsel of Gerber Products Co. and our general offices are at Fremont, Mich. This statement is filed on behalf of the National Canners Association as well as our company.

The National Canners Association is a nonprofit trade association of about 600 members whose annual production accounts for over 85 percent of the total volume of canned vegetables, fruits, juices, fish, meat, and specialty products, including baby foods and soups. Our company is a packer of a complete line of baby foods. Rice is used in baby foods, both strained for small babies and in the junior size product. It also is prepared as a dry cereal for babies. Rice is an ingredient in such other canned products as a wide variety of soups, rice dinners, and oriental and Mexican food preparations. I should point out that we are not millers. Our members purchase from millers rice or rice products in many forms.

While we do not have figures as to total usage in canned foods, it is estimated that between 10 and 15 percent of the rice consumed in the United States is used by nonbeverage food processors. Our company alone uses rice in 20 of its items.

While our opposition to H.R. 7097 is basically to Title III: Rice, we wish to point out that the general effect of Title I: Wheat is also, we believe, an unwise and unwarranted added consumer tax. In substance as we read title III, the purpose is to place upon the consumer a hidden tax of some figure to be determined by the Secretary of Agriculture. The most reliable reports which we have been able to gather indicates that it will be approximately 4 to 6 cents per pound. This is anticipated for the first year and, as shown by the experience with wheat, may be only the beginning.

It is difficult to believe that such a proposal was ever placed before the Congress of the United States. During this same session we have seen reduction or elimination of various taxes. I would not argue against such action and, in fact, believe it was past due in many cases. At the same time the poverty program has gained momentum. In many States foods are exempt from sales tax, and in my own State there is now a proposal before the legislature to eliminate such tax on the basic premise that a consumer should not be so subjected. Yet here we find the proposal that hidden taxes on foods are acceptable. It is also of interest that the net budget saving is something less than \$200 million (with indications that it is closer to \$5 million) while the proposed reduction in excise taxes alone is in the billions. It is also of interest that some Government witnesses have stated that the Federal Government will, under the poverty program, purchase very substantial quantities of rice. There is a real question, therefore, as to whether there are any budget savings as such.

Before going further I would like to make it clear that neither the association nor my company is arguing the relative merits of support to ricegrowers. We do not have sufficient factual background to make any statement in this regard. What we are arguing is the passing on to consumers by a hidden tax the costs of farm subsidy and a portion of the foreign aid program.

It is our belief that the problem, if any, was largely the result of encouragement of rice production as a matter of public policy. Extra incentives were offered for the growing of rice so that we could meet some of our political and humanitarian requirements.

We are for reductions in the national budget and commend all actions which realistically result in such reduction. However, we have here a situation where if, in fact, there is a reduction in the total Federal budget, it is only a paper

reduction. The amount spent will still be controlled by the Department of Agriculture but not through its budget. Rather it controls such expenditure by determining how much it needs and through the subterfuge of certificates places a tax on consumers—all this without the normal budget controls through approved appropriations. This it seems is an example of Congress being asked to give up much of its direct control. Further, if it is not a budget item, it is probable that it will be found easier to continually move the program upward and outward.

Why do we call this a hidden consumer tax? Won't our members merely absorb the cost and, of course, pay less Federal tax? This may or may not be true on some items where rice is merely a minor component, but in the long run the consumer must absorb such costs. However, where rice is an important ingredient manufacturers cannot even temporarily absorb such costs.

We are told that for rice we are talking about an expenditure of only 35 cents per person per year and that this is insignificant even in the poverty areas. Usage figures indicate clearly that national averages are inappropriate. Rice is consumed in very substantial quantities in many areas and these areas are predominantly the ones where incomes are lowest. Fifty dollars a year for an average family of six in Puerto Rico would be a substantial sum.

I would like to digress for a moment to mention one use of rice by our company. During the late 1940's we received many requests from practicing pediatricians for a rice cereal specifically prepared for infants. Our infant cereals are ready-to-use dry cereal in a very fine flake form. In order to serve the product, all a mother need do is add milk and stir. Rice cereal it was believed would answer some problems of allergies. This is exemplified by the following quotation from a text published by Charles C. Thomas, "Allergy in Childhood," pages 464 and 465, by Jerome Glaser, M.D.:

"In my experience, clinical allergy to cereal, except wheat, in infants and young children, has not been very common. It is important to remember, however, that all cereal grains—wheat, rye, rice, oat, barley, and corn—are all genetically related in that they are all modified grass seeds and the person exclusively sensitive to one may be, though not necessarily, sensitive to all. It is highly probable that the kind of clinical sensitivity to cereal grains will depend to a degree upon the part of the world in which the patient lives. In a temperate zone wheat is the staple cereal; in colder climates, as in Scandinavia, rye products are best liked; in Mexico, corn, and in tropical and subtropical countries, rice. In my practice, sensitivity to rice and barley rarely occurs. More frequently is sensitivity to corn and oat and most frequently to wheat and rye. Slobody, Untracht, and Merzmark found no children sensitive to cooked rice. They assumed that the heating of rice and the presence of moisture renders it nonallergenic, as suggested by the work of Ratner and Gruehl * * *."

Our own company has experienced a large and growing demand for rice cereal, and we attribute this primarily to rice being the preferred "starting" cereal and very often prescribed as such by the physician. The pediatrician seems to prefer starting the infant on rice cereal in order to be on the safe side for an allergic baby may easily suffer nutritionally because of such allergy.

Therefore, our rice cereal was formulated without the use of any other grains. Rice is already the most expensive of the grain cereals which we use. It would be impossible to maintain the present price with the cost increases resulting from title III.

Therefore, we have the situation where a food prescribed or recommended for young infants is by virtue of this bill increased in price so as to result in reluctance to buy or conversely to buy because it is for the baby with resulting decrease in funds available to purchase other requirements for the family. This is as true in the poverty areas as in any other areas of the country.

It is, of course, true that the years for childbearing are generally the same period when income is lowest. The 1960 census revealed a substantially higher rate of births in families with lower incomes.

We also believe that this program cannot work and the normal result of increased price would be to result in less use of rice, thus leading to a higher certificate cost, ending in even less use, etc. We know of no case where increasing the price of food resulted in increased consumption such that the problem of oversupply of food was answered. In fact, logic can only dictate that the reverse is true.

We object to placing on specific consumers the cost of "food for peace" and farm subsidies. We believe that these should be and rightly have been classified

as total expense of Government. To attempt to reduce foreign aid cost by higher domestic price we believe is shortsighted and further that it is inherently wrong to pay for such program by taxing domestically a commodity to be given away.

We further object to the basic results of this or any other similar legislation that requires a hidden tax such that the manufacturer or retailer will be blamed for programs over which they have no say or control. Expense of government should be directly paid from taxes directly raised, so that the total expense of government can be ascertained and directly known by the people.

The Secretary of Agriculture recently said, "You can be sure the traditional enemies of the farmer and labor will be shouting the scare words of 'bread tax,' 'rice tax,' and 'inflation.'" It is clear that the scare words are correctly used, for this the result of this program. However, to classify opponents of the program in this manner is completely without fact or justification. We, as food processors, know that only with a healthy economy can we survive. However, we also know that such taxes are not methods to accomplish or maintain a healthy economy.

What we have said regarding a hidden tax on rice is equally true for wheat. It would appear obvious that lower income families eat more of such staple items. The result, therefore, is that the lower income families will bear the greatest portion of the cost of subsidizing the lower export price for wheat and rice. We cannot understand the arithmetic which attempts to justify this program and the poverty program in the same session.

FOOD AND AGRICULTURE ACT OF 1965

FRIDAY, JUNE 25, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room 324, Old Senate Office Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender (presiding), Montoya, and Russell of South Carolina.

The CHAIRMAN. The committee will please come to order.

At this point I would like permission to file in the record the statement of the senior Senator from California, Senator Kuchel.

I have been informed that Senator Kuchel has a toothache which he got last night and has been forced to go to the hospital to have some dental work done.

RICE

(The statement is as follows:)

STATEMENT OF HON. THOMAS H. KUCHEL, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Representatives of our rice industry in California have expressed their grave concern as to title III of S. 1702. I completely agree with their position. Such concern is merited.

In the name of economy, it is proposed to reduce by \$50 million agriculture expenditures for foreign aid and rice price support programs. This is to be accomplished by the device of eliminating export subsidies and lowering support for all rice shipped in export to world price levels. With the realization that such prices would be far too low to provide sufficient income for growers, it is then proposed to increase support prices on rice sold in domestic markets, thus compensating growers for the reduced support in export. This expenditure would be financed by a tax on all rice milled for the domestic market. Such a milling tax would be passed on to the consumers directly by millers.

Unfortunately for the consumer, as a result of these proposals the price of rice would be increased by 5 cents per pound. This amount has been confirmed by officials of the Department of Agriculture. California rice now sells for approximately \$9.50 per hundredweight, f.o.b. mill; thus, the increase would be in excess of 50 percent before the imposition of various trade channel markups prior to reaching the consumer.

The largest users of rice in many areas, however, are those who have the lowest per capita income. Consequently, the inflationary aspects of such an increase in rice prices on a commodity which is the basic food for millions of people stands in sharp conflict with the concept and purposes of the antipoverty program. For example, in Puerto Rico, which is the single largest market for California rice, it is estimated that the rice program now proposed by the administration would cost the consumers there \$15 million annually as compared to an estimated benefit of only \$7 million which they will secure from the anti-poverty programs.

While title III of S. 1702 is advocated on the basis of a national average consumption of 7 pounds per capita, Government economists have failed to give proper weight to the established fact that per capita consumption is in excess of 100 pounds in areas such as Puerto Rico, Hawaii, and parts of California and New York. They have also failed to give weight to the loss of essential business with food processors who would find it extremely difficult to pass this increase in cost along to consumers in competition with other cereals using other commodities lower in price than rice. The result surely would be a drastic decline in the consumption of rice and a worsening of the market. I also have grave doubts as to whether programs authorized by Congress on the judgment that they are for the general welfare such as foreign aid programs using rice should be financed by milling taxes levied on those whose historical dietary habits result in a consumption rate of rice 20 times the national average.

I repeat: Approval of this legislation will surely result in a drastic reduction in domestic consumption with the result that even more Government funds will be required to handle surpluses, which will accumulate in the long run, thus nullifying whatever short run Government economies might be temporarily accomplished.

California, in addition to being a leading rice producing State, is also a leading State in consumption. My State contains in excess of 2 million citizens of Latin American and Oriental extraction to whom rice is still a basic food. This proposed program would thus work great hardship on many of our fellow Americans.

I am confident, Mr. Chairman, that the Senate Committee on Agriculture will give thoughtful consideration to the testimony of the rice growing and milling industry which will be presented in opposition to title III. The industry has assured the Secretary of Agriculture of their desire to sit down with him and work out a realistic program which would result in economies under the existing law. I deeply hope that this will be done with the consequent advantage for the taxpayers and consumers of our country.

The CHAIRMAN. We next have the pleasure of having the junior Senator from California, Senator Murphy. You may proceed, Senator.

STATEMENT OF HON. GEORGE MURPHY, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator MURPHY. Mr. Chairman, I am pleased, of course, to note that the senior Senator conforms with my views although I have not seen his statement, but I am quite sure that his views conform with mine, knowing his feelings in this matter.

Mr. Chairman and members of the committee, I am very much concerned that the adoption of title III of Senate bill 1702 would have serious adverse effects on our rice industry and would work an unfair hardship on the consumers of rice in California as well as in other Southern States. Since the growing and milling of rice, together with its related industry are very important to the economy of my State, I am pleased to have this chance to comment briefly on the matter.

Basically, title III proposes as its economic objective a reduction in the Federal budget of approximately \$50 million for rice price support and foreign aid programs, with the expense to be transferred to consumers in our domestic markets. This is to be accomplished by a certificate program which provides for a milling tax to be paid by rice millers and passed along to consumers. These costs to be borne by consumers would be in place of export subsidies now included in the agricultural budget.

While it is my understanding that title III is opposed by the entire national rice industry, both growers and millers, it has unusually seri-

ous implications to California since historically the rice industry of my State has concentrated on the development of the domestic market. The short grain type of rice grown in California is preferred by the people of Puerto Rico, Hawaii, our citizens of Latin American and Oriental descent, and the food processors. These markets take over 60 percent of California production and the balance is sold in dollar markets such as Japan and Okinawa. This is unlike the rice situation nationally, where 65 percent is sold for export, much under Public Law 480 programs.

The projected increase in the price of rice of 5 cents per pound at mill levels—a drastic 50-percent increase—would have serious repercussions. The domestic markets, so carefully nurtured over the years, would be lessened and the result would be to increase the need for governmental assistance for exports. Even though there has been some consideration given to graduating these increased prices over several years, the final result would inevitably be the same.

Mr. Chairman, I am here to object to this proposal because of the unfair burden it would impose on the 2 million California citizens of Latin American and Oriental descent. These people consume over 100 pounds of rice per year—in contrast to the national average of about 7 pounds per capita. Many of these people have extraordinarily large families and below average income so are far from able to bear a sharp increase in the price of one of their principal food staples.

At a time when an enormous amount of effort and money is being expended on programs to fight poverty, and help those who have not been as fortunate as some others, it would seem very odd to me if we took action such as is proposed in title III which would certainly add to the poverty problem.

When we have corn support programs which have cost \$5.4 billion since 1961, and I think the estimate for this year is \$1.4, I would wonder at the wisdom and logic of harming individual citizens in order to save \$50 million.

Foreign aid price support programs as instruments of our national policies are justified by their benefit to all our citizens. It does not seem justifiable that the burden of such a program should be so disproportionately distributed among our people as would be the case under the milling tax proposed under title III.

I strongly endorse the recommendations of the official advisory committee of the rice industry that the Secretary of Agriculture use his powers under present law to effect economies. I know the industry will work with him to that end and sincerely hope that title III will not be included in this bill.

I have been told by the industry people that there is no question but that if the Government representatives and the representatives of the Secretary of Agriculture would work with the industry people, that they are not only willing but they are anxious to do this, that they could bring about all sorts of savings. And they also tell me that it would be quite possible that they could expand foreign markets, the dollar markets, whereby the exact thing that is being sought to be accomplished here could be accomplished but done on a sound economic basis without any injury to our people.

Thank you very much.

The CHAIRMAN. I am glad to hear from you, Senator Murphy. I think that a case was made the other day very well when it was stated that the consumption of rice is primarily in five states where the poor people live, Japanese, Chinese, Latin Americans, and the like, and that something like 60 percent of the rice consumption is by these poor people.

I recall somebody testified that to save \$50 million you would charge those poor people about \$100 million.

Senator MURPHY. It does not seem to make much sense.

The CHAIRMAN. No, it does not. As you pointed with respect to other programs, the corn program has cost \$5.4 billion in the last 4 years, and this year it is estimated that it will be \$1.4 billion, but you do not hear much criticism of it.

Senator MURPHY. I would think, too, that the suggestion by the industry people that the Secretary of Agriculture permit them to sit down with him and consult would be helpful—these people are experts in this field.

The CHAIRMAN. I would not only want them to do that, to consult with him, but to inform him and for him to follow some of their advice.

Senator MURPHY. I think that would be good.

The CHAIRMAN. They treat the advisory committees now as if they were a bunch of stooges, and they tell them what they ought to do, but when it comes to act, they do not take advice.

Senator MURPHY. This is one of the symptoms of government that I am sure that the chairman and I agree should be changed a little bit in Washington.

The CHAIRMAN. I have been living with it for 28½ years, and I know a little bit more about it than you do, I believe.

Senator MURPHY. I am glad to have a chance to come and join with you in the battle, though.

The CHAIRMAN. All right.

Senator MURPHY. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you.

Our next witness is Mr. Alioto. I notice that you have with you Mr. Harris, Mr. Drew, Mr. McGowan, and Mr. Penagaricano.

All of you gentlemen may take a seat at the table and we will hear from you.

STATEMENT OF JOSEPH L. ALIOTO, PRESIDENT; JUAN T. PENAGARICANO; GLEN R. HARRIS; LELAND O. DREW; AND ROBERT T. MCGOWAN; RICE GROWERS ASSOCIATION OF CALIFORNIA, SAN FRANCISCO, CALIF.

Mr. ALIOTO. Mr. Chairman and members of the committee, I probably will make a kind of consolidated presentation here to save time.

I have with me Mr. Juan T. Penagaricano, who is the former Economic Stabilization Director of Puerto Rico. And my association has brought him up here as a guest to inform the group on the Puerto Rico situation. Mr. Drew, sitting to my left, is the director of the Rice Growers Association. And next to him is Mr. Glen Harris, who is a director of the Rice Growers Association, and next to him is Mr. Robert McGowan, a director of the Rice Growers Association.

We are here making this presentation on behalf of the Rice Growers Association of California. We have all filed written statements, and we are not going to burden either the record or you with a reading of those statements.

(Mr. Alioto's prepared statement is as follows:)

Mr. Chairman, members of the Senate Committee on Agriculture and Forestry, the Rice Growers Association of California, a grower-miller cooperative with a membership of 1,800 growers produces, mills, and markets over 60 percent of the California crop. Of this production approximately 60 percent is sold in domestic markets and 40 percent in export.

The considered judgment of the association in its varied role of grower, miller, and marketer is that the certificate plan as proposed in title III is both unwise and unjust and would be destructive to the rice industry while failing to accomplish its announced objectives. It is therefore opposed by our membership. The association is in accord with the expressed aims of title III but believes these objectives can be better accomplished under the framework of existing legislation which already provides the Secretary with discretionary powers to reduce both Government expenses and surpluses and to promote trade.

We have also made a study of Senate bill 2111 recently introduced and will comment briefly following our statement on Senate bill 1702.

Title III makes drastic changes in present rice price support legislation and authorizes the Secretary to set the support price at any level between 0 and 100 percent of parity while current law authorizes the Secretary to set the support rate between 65 and 90 percent of parity. Title III establishes the minimum production allotment at 60 million hundredweight as compared to the present minimum of 1,652,596 acres. Under existing law, the national rice acreage allotment could be cut not more than 10 percent while the proposed certificate legislation based on current national field yields could cut the allotment over 20 percent. Title III provides supplemental income to rice growers in the form of domestic allotment certificates, having a cash value representing the difference between the support price and any level between 65 and 100 percent parity, at the option of the Secretary. Growers would receive these certificates on that percentage of their production that the domestic market represents of the total market for the U.S. rice crop. This share initially would be 35 to 40 percent.

The Secretary has indicated that in the first year of the program he will set the value of the domestic allotment certificates at 100 percent of parity, thus pegging domestic prices at that level. Under the certificate program whereby mills must purchase processor certificates for all rice moved in domestic markets, the price of milled rice in the domestic market during the first year of operation would necessarily be increased approximately 5 cents per pound at the mill level. Since the price of California milled rice at the mill level averages between 9 and 10 cents per pound, the result would be an increase of over 50 percent in f.o.b. mill prices. There would be an additional increase in prices approximating 25 percent to domestic consumers representing freight, State sales taxes and normal markups in the various channels of trade. There is no precedent for such an increase in price as a result of governmental action or legislation.

Proponents of the certificate plan have justified much of this proposed legislation on the basis of projected average results which sharply distort the effect not only on the rice industry but on consumers who will bear the burden of higher retail prices. As a prime example, the Rice Growers Association has sold historically an average of 60 percent or more of their rice in domestic channels as compared to the national average of less than 40 percent and this is true of the entire California industry. This bill fails to reflect therefore the marketing history and policies of the individual States in selling their rice. While we do not question that the national average of domestic sales has been from 35 to 40 percent, we oppose a certificate plan which would provide domestic allotment certificates to California growers based on the national average rather than California's own historical average. The result of this legislation is to transfer farm income from those States selling most of their rice in domestic channels to States which have historically marketed most of their rice in export. It is our belief that a truly fair certificate plan would provide domestic allotment certificates to growers in each State based upon each State's historical record as a component of the national average. California's historical record

reflects the success of the Rice Growers Association in developing domestic markets resulting from a long-term policy of cultivating domestic outlets through intensive merchandising and rigid quality control.

We have made vast expenditures in advertising to develop our brands and have made substantial investments such as in Puerto Rico where we constructed a large bulk plant and transport our rice to that market in our own bulk self-unloading vessel. Our investment in Puerto Rico alone approximates \$6 million.

This has also been accomplished as a matter of policy by selling rice to domestic food processors at lower prices than we might have received in export with the assistance of Government export subsidies. This policy has been beneficial to our Government since taxpayer assistance has been minimized as our domestic markets have increased over the years.

According to Department of Agriculture statements, the cost of processor certificates to be purchased by rice mills would result in an increase in the price of rice by 5 cents per pound and since the Department states that the average domestic consumption is only 7 pounds per person, the added cost would be only 35 cents annually to the average consumer. Here again, the mistake of planning new legislation based on broad averages is obvious. This oversimplification fails to recognize the gross inequities of such a plan because of the failure to give consideration to the salient fact that rice is a basic food consumed in greatly varying quantities in different parts of the United States with the result that the burden of financing the certificate plan would fall disproportionately on limited segments of our population having the lowest per capita income. As an example, in Puerto Rico which consumes 3,500,000 hundredweight annually or one-sixth of the total domestic use, the average consumption is 140 pounds compared to the national average of 7 pounds. It is obvious that an average of 140 pounds in Puerto Rico indicates that many Puerto Ricans consume in excess of 200 pounds. In Hawaii, which uses 600,000 hundredweight, there is an average consumption of 100 pounds. This is based on a population which includes many of the military and it is well established that in many Hawaiian families, the per capita consumption will approximate 200 pounds annually. The same situation exists in many Southern States, California, and particularly in New York City, where the per capita consumption will approximate 100 pounds among some groups, emphasizing the self-evident fact that many families consume far more than the average in their State.

We are attaching editorials appearing in the San Juan (P.R.) Star and the Honolulu Advertiser expressing the negative reaction of two areas consuming over 20 percent of the national usage. Petitions signed by 30,000 persons in Hawaii and 60,000 in Puerto Rico opposing title III were received by the House Agriculture Committee recently.

During recent years the use of rice by food processors, particularly manufacturers of breakfast cereals and baby foods, has been increasing rapidly. Rice, however, is only one of the grains used for processing purposes and is presently higher in price than any of the competing grains. The Rice Growers Association has been for years the largest seller of rice to the processing industry, and it is obvious that an increase in the cost of rice of more than 50 percent would have an immediate restricting effect on usage because of consumer resistance. The result also would be a reduction in manufacturers' outlay for advertising and merchandising to offset the increased price of rice. There would also be a reduction in expenditures for research in the development of new rice products.

In the milling of rice, approximately 10 percent of the milled product is in the form of small broken which accumulate in the milling process. The sole outlet for these small broken are a few of the Nation's larger breweries who have been ready buyers of our production. In the brewing process either corn or rice may be used. An increase in the price of brewers rice above present levels which would be necessary under the certificate plan would result in the loss of our only markets for brewers rice to corn. Our only other domestic outlet would be the sale of this valuable food product for animal feed.

An analysis indicates that, of the approximately 19 million hundredweight of milled rice consumed annually in the United States, 66 percent, or 12,500,000 hundredweight, is consumed directly (table use); 19 percent, or 3,600,000 hundredweight is used by breweries, and 15 percent or 2,800,000 hundredweight by food processors. A total of 4,100,000 hundredweight is consumed in Puerto Rico and Hawaii, or one-third of all table rice. It is, clear, therefore, that Hawaii, Puerto Rico, food processors, and breweries utilize a total of 10,500,000 hundredweight, or 53 percent of all domestic milled rice, and would bear that portion of all

increased costs under the certificate plan. Since expenditures by the Department of Agriculture result from national policy and are for the purposes of maintaining a sound agricultural program and for supplying rice and other farm commodities for foreign aid programs it is obviously unjust that such a limited segment of industry and consumers should bear a disproportionate burden which should be shared by us all equally as taxpayers and beneficiaries of sound government policy.

It is reported that the Government expended \$180 million on rice programs last year, most of which was under Public Law 480. It is our belief that foreign aid programs should not rightfully be charged against agricultural appropriations, but instead should be included in our foreign aid budget.

It is anticipated that, in the 1964 crop year soon ending, California will have exported approximately 4,650,000 hundredweight of processed rice with a value f.o.b. dock, vessel, or rail car of \$36,500,000, including subsidy of approximately \$8,600,000. It is estimated that foreign purchasers will have paid to U.S.-flag vessels, U.S. railroads, and for U.S. port charges in excess of \$1 million. With the exception of a relatively small shipment under title IV of Public Law 480 these sales all will have been made in dollar markets. Since California growers put no rice under support, the total cost to the Government for California rice programs will be less than \$9 million of an estimated \$180 million expended on the national rice program. When the benefits of the California export program are considered in terms of increased income tax revenue and increased gold payments for rice and ocean transportation, as compared to the alternative of taking over this quantity of rice under support, it is evident that Government net costs were very nominal indeed. Since previous crop years have been following a similar pattern and since it appears there will be a need for all California rice in dollar export markets in the ensuing years without placing rice under support, California growers are greatly concerned about any departure from the existing successful program.

We are also greatly concerned that the certificate plan, if adopted, would present grave enforcement problems at all industry levels as the opportunities for deviation would be great, requiring the stationing of Government inspectors or accountants at rice mills to prevent violations. The present program is free of such problems.

Our members support sound efforts to accomplish savings in the Federal budget. However, we believe it would be shortsighted and self-defeating to inaugurate a program which would have the effect of restricting the expanding use of rice. California growers have historically grown rice with the primary object of selling in the domestic market and unwise agricultural legislation could negate the efforts of our industry in California over many years.

The loss of domestic markets under the certificate plan would have serious cumulative effects since the amount of domestic allotment certificates would decline proportionately with resultant loss of grower income and increased Government expenditures required to handle surpluses.

All segments of the rice industry, together with consumers, are opposed to this legislation. We who have spent many years in the industry can fully appreciate the dangers of the certificate plan and our opposition is based upon that knowledge that comes with actual experience in all phases of the business. While it is not our desire to comment on the wheat program, it should be emphasized that the problems of a certificate plan for rice are quite difficult. There are 14 different varieties of rice and 6 grades of each, together with the special types of brown and parboiled for each variety and grade. In addition, there are three types of broken rice with six grades each. Some varieties are grown only in the South, some only in California. Some varieties are sold largely in export, while others are consumed principally in the domestic market. Others are preferred by food processors. Because of these many variances, rice is the only grain not traded actively in the futures market. The certificate plan is proposed as a common denominator for all varieties and grades of rice. We in the rice business know this is not possible without resulting problems for an entire industry.

It is our understanding that it is proposed to save \$50 million under the certificate plan, an accomplishment we believe unlikely. It is estimated the additional benefits for small farmers would approximate \$9 million. Since there would be a drop in domestic sales, grower marketing certificates in excess of milling certificates would be issued, reducing the projected savings by an addi-

tional \$15 million. Additional Public Law 480 programs in the amount of approximately \$17 million to offset loss of domestic sales would be necessary. Additional administrative expenses of at least \$1 million would be required, or a total of \$42 million additional expense to offset an estimated saving of \$50 million. If one included an estimated saving of \$7 million if support were reduced to the minimum level under present law, there would be virtually no savings under the certificate plan.

Under existing law, Secretary has numerous administrative alternatives for reducing costs. We believe the most effective of these would be a reduction of support and reduction in costly Public Law 480 programing. To offset the reduction in Public Law 480 programs, there should be strong measures to increase dollar exports with resultant decrease in expenditures and a large increase in inward gold flow. Past experience indicates that timely and judicious subsidy adjustments result in increased dollar exports.

Title III is inflationary and destructive in nature and will not accomplish the announced objectives of economy. The Rice Growers Association urges that title III be eliminated and the Secretary utilize his present authority to accomplish the desired objectives of economy and expansion of trade. The rice industry awaits the opportunity to work cooperatively with the Secretary in effecting these economies in a manner which would be effective and satisfying to all.

In analyzing Senate bill 2111 we note that an effort has been made to improve on bill 1702 and in some respects this has been successful. This bill provides a minimum support of 50 percent and retains a minimum of 1,652,596 acres instead of 60 million hundredweight. It also provides for minimum 100-percent-parity support on the domestic portion of the crop. These are constructive changes from No. 1702.

We also note that No. 2111 provides for a permanent certificate program while No. 1702 is of 2-years' duration. We have serious reservations as to this feature. Bill 2111 attempts to graduate the impact of the certificate program on the domestic market over a period of 4 years. The practical result in 1966 however, is questionable. Assuming that world prices or 50 percent of parity would not exceed \$3.60 per hundredweight, costs to millers for domestic use the first year would be less than current support. (\$3.60 plus one-fourth of \$2.90 or \$4.32 per hundredweight.) The above is based upon processors paying one-fourth of the cost of processor certificates while growers would receive the entire \$2.90 per hundredweight in addition to \$3.60 support for all production. In the 3 ensuing years the cost of processor certificates would increase until processors would pay the entire costs then to be transferred to consumers through higher prices.

Despite the fact that we appreciate the effort in bill No. 2111 to improve some of the provisions of bill No. 1702, we are obliged to recommend its rejection. Bill No. 2111 retains the objectionable principle of transferring from the Federal budget the cost of support and foreign aid programs which benefit all citizens to a limited group of processors and consumers who will be obliged to bear most of the burden. Although the transfer of this obligation is more gradual we question if the ultimate loss of domestic markets will be any less or that the resultant increase in Public Law 480 programs to compensate will be any different than under bill 1702.

It appears that under bill 2111 it would be necessary for the Commodity Credit Corporation to expend in the 1966 crop year \$65 million to finance three-fourths of the cost of grower marketing certificates based on domestic usage of 31 million hundredweight of rough rice. This amount together with \$9 million for small grower benefits together with \$1 million for administrative costs would total \$75 million. While there would be savings to the Commodity Credit Corporation in lower support and reduced or eliminated subsidies it is estimated that the net increased costs for the first year would approximate \$30 million with this being reduced during the following 3 years as processors and consumers assumed more of the burden. Obviously there would be no economy for an indefinite period.

The rice industry has prospered under present law. We recommend the continuance of this program with Government and industry working together to reduce costs thereunder.

[From the San Juan Star]

PROPOVERTY PROGRAM

A bill in Congress, H.R. 7097, would more than destroy all the benefits of Puerto Rico's share in President Johnson's antipoverty program if approved in its present form.

The measure, designed to establish a two-price system for rice consumed on the mainland and that which is exported, would raise the price of rice to island families by possibly as much as 5 cents a pound. The objective of the administration is to eliminate the export subsidy paid annually to keep U.S. rice competitive in the world market.

What it would do to Puerto Rico is to compel consumers here to pay about \$15 million more annually for the 300 million pounds of rice that make up a major staple of the Puerto Rican diet.

Compared with the \$6 or \$7 million estimated to come here under the antipoverty program, this added burden on island families would wipe out by double the intended assistance under the President's war on poverty.

Under its present rate of consumption, Puerto Rico consumes 140 pounds per capita of rice which means a per capita increase for rice alone of \$7 annually. The average consumption per capita in the mainland United States is 7 pounds by comparison, which means that the burden would be infinitely smaller except in New York City where consumption is about 40 pounds per capita as it is in some Southern States. In Hawaii, which would also be hit as a "domestic" market, consumption is about 100 pounds per person.

The result of this program would be to place the major burden on Puerto Rico, Hawaii, and certain parts of the mainland United States where the large consumers of rice are, unfortunately, those with the lowest per capita income.

This is especially true in Puerto Rico where rice is a basic part, often the only food, in the daily diet of thousands of impoverished families. To impose on these families an additional cost annually of \$15 million, most of which would necessarily come from the lowest income sector of the population, would be tantamount to a betrayal of the President's avowals of concern for those citizens now living in poverty.

The Commonwealth administration, the Resident Commissioner, and the island's friends in Congress should make every effort to avert this serious blow to Puerto Rico.

[Editorial, Honolulu Advertiser, Apr. 29, 1965]

HARD TO SWALLOW

It's doubtful if the national administration contemplated the special impact in Hawaii of the rice price increase in the omnibus farm bill now before Congress.

This will work a special hardship on Hawaii consumers and it is right that proper protests are being made.

Senator Daniel Inouye and Congresswoman Patsy Mink have objected to Secretary of Agriculture Freeman. Congressman Spark Matsunaga is on the House Agriculture Committee which is considering the bill.

More than 100,000 signature have been gathered on petitions at local supermarkets and will be sent to Washington. The city council has also passed a resolution opposing the rice section of the omnibus bill.

The bill would increase rice prices about 5 cents a pound as part of a plan to shift \$200 million in price supports from the Treasury to the consumer. For the average American this means about 35 cents a year.

Hawaii's case for special consideration rests on the fact we are far above this figure, which is based on average U.S. consumption of about 7 pounds a year. Hawaii average consumption is over 100 pounds per person annually.

Since some families here don't eat rice, it means that the average rice-eating family in Hawaii will be hit even harder.

Congresswoman Mink estimates that the impact on the average family here would be 15 times that of the average family in the Nation and the cost to rice-eating families here could run to \$50 a year.

Hawaii should have some outside support for modification in the bill. Consumption in the South averages 50 pounds a year, far above the national average. The same figure is true of New York City, because, industry sources say, of the number of Puerto Ricans. Puerto Rican consumption averages a whopping 140 pounds a year.

The Rice Growers Association of California, which sponsored the petitions here, is protesting on several grounds, including the view that Government estimates of the "average" impact don't recognize the special impact in Hawaii.

Mr. ALIOTO. There are some salient points that we would like to make, and we can make them better orally.

The CHAIRMAN. I am glad that you are not going to burden the record as you state, so long as we have the facts. Not that we need to many additional facts to make a determination, but we will be glad to have them. And we will give you the opportunity of putting your statements in the record.

Mr. ALIOTO. Thank you very much, Mr. Chairman. We appreciate that very much. We will not repeat those you have already heard.

I think something of the structure of our own organization, and something of the structure of the California industry as a whole might be important, Mr. Chairman, because I think that we have had a commercial experience in California that can very well point the way to achieving the objective of the Department of Agriculture without the deception that, certainly, is going to be caused by this bill.

The Rice Growers Association is an agricultural cooperative. We started with a little group of farmers back in 1921. We went into the milling business in 1931. At the present time we have 1,800 grower members. Those 1,800 grower members own and operate 5 mills in California. They own and operate a processing plant in Puerto Rico. They own and operate two ships, one of which is the *Rice Queen* for the carrying of bulk rice from California to Puerto Rico which is the first time in the history of the world that edible rice has been carried in bulk in this fashion and successfully. It has been in operation now for 5 years. And we have the first *Rice Queen* which is now taking bulk rice, both white and brown to Okinawa.

The CHAIRMAN. What is the capacity of that ship?

Mr. ALIOTO. The present *Rice Queen*, the one that goes to Puerto Rico, has a capacity of 15,000 short tons. And the Okinawan rice ship has a capacity of 10,000 short tons.

The CHAIRMAN. Is that rice in the hull or milled rice?

Mr. ALIOTO. This is milled rice. As I say, this is the first time in history that edible rice has been carried that way, and this is white rice. These are specially built ships, push-button operations. They are floating grain elevators, that is what they are. We are able to load those ships in about 20 hours. And we are able to discharge them completely automated just by pressing a button, the 15,000 tons in, perhaps, say 19 hours. You can see the kind of operation that is.

The Puerto Rican operation cost the Rice Growers Association approximately \$6 million, and we did that because we spent a long time building up this Puerto Rican operation. And we will talk about that in just a moment.

In addition to these things the little group of farmers who started in 1921 now own their own storage and grinding facilities. They have a capacity for 100,000 bags a day for drying, and 4,500,000 storage capacity.

We are farming 196,000 acres. You can see that the average farm that we are talking about in California, so far as the Rice Growers Association is concerned is, approximately 110 acres.

The CHAIRMAN. That is the allotted acres of rice?

Mr. ALIOTO. That is correct.

The CHAIRMAN. Let me ask you this: How many acres must a farmer have in order to be able to plant 110 acres of allotment each year? I presume that you leave your land idle for a year or two?

Mr. ALIOTO. Yes, sir. There are others planted by our group.

The CHAIRMAN. You mean, aside from rice?

Mr. ALIOTO. Yes.

The CHAIRMAN. Can you use the same land—do you irrigate it the same way; or what?

Mr. ALIOTO. I will let Mr. Harris answer that question directly, because of his greater experience as to how much more land they have other than the rice land.

Mr. HARRIS. Senator Ellender, there is quite a variation within the rice area of California as to just what particular rotation would be followed when the crops are on the same farm. And, also, the frequency of planting of rice on the same acreage. But, in general, rice would not be planted more than every other year on the same acres. Still for the 110-acre allotment it would take, at least, double that amount. And, generally, a little more. It would be something like 250 to 300 acres for the farm to support that allotment.

Some of these other crops are, also, irrigated, summer crops, but there are, also, farms in a good part of the belt where crops will be grown by rainfall without irrigation.

The CHAIRMAN. Your land does not lay fallow?

Mr. HARRIS. Very little of it any more that is fallowed, because you cannot afford it with our high taxes. You cannot miss some production every year. We try not to do so. There is some of it that is fallowed occasionally, leaving it in land diversion purposes.

Mr. ALIOTO. Senator Murphy indicated our domestic and export situation is a little bit different than it is for the Nation, generally. We have 60 percent that goes into the domestic commerce, and approximately 40 percent that goes into export commerce.

The CHAIRMAN. Is that mainly to Japan?

Mr. ALIOTO. The principal markets in California are——

The CHAIRMAN. And to Okinawa?

Mr. ALIOTO (continuing). Puerto Rico, which takes 120,000 tons from California and Hawaii takes 30,000 tons. Those are the principal domestic markets. And next are the processors, the industrial users who take, approximately, 50,000 tons. Insofar as the export is concerned this last year we had 130,000 tons go to Japan and, approximately, 70,000 tons go to Okinawa. So that those five markets, basically, are our markets. Consisting of Puerto Rico, Hawaii, the industrial users, some continental and Japan and Okinawa.

The CHAIRMAN. All of that rice is shipped in bulk?

Mr. ALIOTO. The Japanese rice goes as brown rice. The Okinawa rice is a white rice and brown rice. The Puerto Rican is shipped in bulk as white rice on our own ships.

The Hawaiian rice is packaged in California and shipped in bulk containers by the Matson Co. and by the Bark Co. from California to Hawaii.

That is the way that breaks down.

So far as the structure of the rest of the California industry is concerned we are actually 100 percent cooperative out there, not formally, but actually. Let me explain what I mean by that.

There are three cooperatives in California, two besides our Rice Growers Association. The cooperatives own almost 95 percent of all of the rice that is handled in California. Fifteen percent is handled by commercial millers. It has to be bought on a cooperative basis, that is, they have to match the cooperative returns. Most of them, actually, buy it for so much down, and then whatever the cooperative has, it is returned at the end of the year. So for all practical purposes you have a program in California that is 100 percent producer cooperative, in those cooperatives, where the farmers own everything from the farm on through. And in our situation, for example, we have two very important labels, Sello Rojo and Hinode. So all of those things are right from the farm to ours by the farmers themselves.

At the end of each year, after expenses, we pay the farmers 10 cents a bag in our organization, which we retain, and we pay them 7 cents interest on that, and we permit them to redeem that once a year every year.

The CHAIRMAN. Is that an advance, you say?

Mr. ALIOTO. No; this is held back, retained until the end of the year. We give them stock, and we pay 7 percent on that, however.

Then we permit them to redeem it if they desire to do so.

I think that the cooperatives, really, have achieved a high degree of organization in California.

The CHAIRMAN. To whom is the 15 percent sold?

Mr. ALIOTO. We have three commercial millers in California.

The CHAIRMAN. Do they sell for Rice Krispies?

Mr. ALIOTO. They sell in the same amounts that we sell. They, also, go to Puerto Rico, Hawaii, and Japan and Okinawa. All of the industry sells to the four markets. The figure I gave you a while ago consisted of a figure for the entire California industry and not just the Rice Growers Association.

The CHAIRMAN. What percent of your production is short grain?

Mr. ALIOTO. This year it is going to be about 50-50. It has been 60-40 pearl and medium brand. This year we believe it indicates that it will be about 50-50.

The CHAIRMAN. That is short grain and medium grain?

Mr. ALIOTO. Medium grain, yes. Fifty percent short to pearl, and 50 percent medium grain.

The CHAIRMAN. Are you able to say how much subsidy the people from Japan receive on this rice, in other words, what is the difference between the world price and the support price?

Mr. ALIOTO. I would like to give you our actual experience on that, because it is going to form the basis for a recommendation that we are going to make later on.

The CHAIRMAN. If you have it in your statement, we will wait for it.

Mr. ALIOTO. I will give it to you right now, because this is important. I think this points the way to a solution.

The CHAIRMAN. That is why I asked the question.

Mr. ALIOTO. That is, to this whole problem. Last year the California industry shipped to Japan, Okinawa, Guam and some European shipments, not very much, basically all Japan and Okinawa, \$36,500,000 worth of rice. That is an f.o.b. price. That does not include the freight. It was \$36,500,000 worth of rice. Of that the Gov-

ernment subsidized \$8,500,000 or, approximately, 23 percent. That is \$8,500,000 on \$36,500,000 worth of rice that was sold.

The CHAIRMAN. Did you say it cost the Government \$36,500,000?

Mr. ALIOTO. No; it cost the Government \$8,500,000 to subsidize. And that \$8,500,000 generated \$36,500,000 of sales. Here is the point that I would like to make on that, that I was going to make later.

The CHAIRMAN. You got \$8,500,000 in subsidy?

Mr. ALIOTO. We got \$8,500,000 as a subsidy, but this generated \$36,500,000 of sales.

To analyze that and to compare it, say, to a Public Law 480 situation, California is 100 percent a dollar market. You analyze that \$36,500,000, and what it means is this, that because of the expenditure by the Government of \$8,500,000, you got 28 million American dollars from foreign sources flowing into the United States. In addition to that, being generated in that fashion and handling the gold flow problem, which is still a problem with us, approximately \$1 million was spent by those same foreign buyers on American flag vessels, for dock costs and the like. That is an additional \$1 million that was spent.

The point we think is economically justified. And that a complete study of it would satisfy you. The Government, really, did not spend that \$8,500,000 when you apply the consequences of the income tax statute on the whole \$36,500,000, and the Government will be getting back almost all of that \$8,500,000, since that \$36,500,000 comes in, really, at the top after the domestic sales have been made. And we think that this points the way for a program that we would like to suggest any moment after we have had a presentation of the impact of the existing law, for example, on Puerto Rico where we think that the result in Puerto Rico is a device to sock the poor to subsidize the poverty program.

The CHAIRMAN. You do not mean that, do you?

Mr. ALIOTO. In the proposed legislation at the moment.

The CHAIRMAN. You mean it socks the poor?

Mr. ALIOTO. It socks the poor to subsidize the poverty program. In other words, we are going to add \$15 million to the rice in Puerto Rico, and give them back seven under the poverty program. We have already indicated and have put into the record editorials from Puerto Rico, but the best man who can tell you about the injurious effect which is, in effect, a 50 percent sales tax on Puerto Rican rice, at a time when we have eliminated the 10 percent taxes on luxury items—I think the best man to give you that picture is Mr. Juan Penagaricano, whom we have asked to come up here to talk to the committee. Mr. Penagaricano was the former Economic Stabilization Director of Puerto Rico in charge of their price control laws and he is eminently qualified to give an excellent firsthand view of it.

The CHAIRMAN. We had a very good statement made yesterday by a Puerto Rican out of New York, but a duplication will not hurt. Before he does that, however, I would like to ask you this question. This \$8,500,000 outlay that you mentioned to sell the \$36 million, what does that amount to per pocket or 100 pounds of rice?

Mr. ALIOTO. Let me reconstruct that.

The CHAIRMAN. You figure it out, and let Mr. Penagaricano go ahead.

Mr. ALIOTO. It came to, approximately, I can tell you that—it came to about \$1.60, approximately.

The CHAIRMAN. That is the average?

Mr. ALIOTO. Yes, sir, that is it.

The CHAIRMAN. Thank you. You may proceed, Mr. Penagaricano.

Mr. PENAGARICANO. Mr. Chairman and members of the committee: I am speaking on behalf of 2,350,000 consumers of rice, residents of Puerto Rico. Rice that is enriched with certain vitamins and mineral elements by legal requirements approved in 1952, is one of the main staples of our population. The yearly consumption per capita is 134 pounds. Although this average consumption is high, still, the individual consumption of the poorer classes is much higher, close to 150 pounds. The consumption per capita in 1955 was 135 pounds which shows that the preference for rice has been maintained during the last 10 years and will continue to be one of our main traditional staples.

The importation of rice during 1964 was 3,217,000 hundredweight, all from the United States. Of this total, 75 percent comes from California and the rest from the Southern States, principally Louisiana. For the last 20 years all importation of rice in Puerto Rico has been totally from the United States except some minor shipments received in 1946 from the Dominican Republic.

Our present yearly income per capita is \$830, raised from a little over \$100 20 years ago. Although our income per capita is the second highest in Latin America, it is lower than that in the State of Mississippi, which is the State with the lowest income per capita in the United States. The income per capita in Puerto Rico has been raised to the present level with great effort of the combined resources of private industries and governmental development agencies. Any drain on the pocket of our consumer affects our whole economy, main reason for still maintaining in Puerto Rico a selective system of price control, initiated in 1942 during the Second World War. Although the control on the price of rice was lifted in September 1954, the price to the consumer has been maintained at 13 cents per pound. It is of great significance to note that the price of rice to the consumer has been close to 13 cents per pound since 1947, while the index of prices has increased by 30 percent.

The shippers of rice from the United States, conscious of the effect that an increase in the price of rice has on the consumer, have established on the island installations to receive the grain in bulk and process it locally. The savings in the transportation and in the process of preparation and packing have made possible the maintenance of the price of the consumer at 13 cents a pound.

On the basis of the present annual importation of rice (3,200,000 hundredweight) an increase of only 0.01 per pound in the price of rice represents an additional cost to our consumers of \$3,200,000 per year. If the increase is 5 cents per pound that additional cost would be \$16 million per year.

Any place in the United States where the consumption of rice per capita is as high as it is in Puerto Rico would have to oppose and object, for its economic implications to the consumers, to any increase in the price of rice.

Puerto Rico is the first market of U.S. goods and services in Latin America; it is the second market in the Western Hemisphere, only next to Canada, and it is the fifth market for the U.S. goods and

services in the world. This is the potential of the consumers on an island 100 miles long and 30 miles wide. Those figures show that Puerto Rico is a help to the U.S. economy, not a drag, but a very important factor to our economy. Any legislative measure aimed to increase the cost of a product like rice should be studied very seriously and carefully when it affects deeply one of the main markets of American productivity.

The consumers of Puerto Rico do not want to suggest any other measure which would serve the purpose behind the amendment to title III of the Agricultural Adjustment Act. The economic principle of balance of conveniences has to be considered. If the disbursement of the Federal public funds requirement adjustment said adjustments should not be made at the expense of the pocket of a sector of this country's citizenry. A heavy financial burden to the consumers of Puerto Rico may require some sort of relief for those consumers, as pointed out by Mr. Edwin Jaenke of the U.S. Department of Agriculture at the hearing held by the Subcommittee of Agriculture of the House last May. Puerto Ricans do not favor relief programs when there are other means available. The relief may cost the Federal Treasury more than what it would collect by imposing a tax on rice. Besides, this country shall not overlook the fact that direct grants of relief to individuals, at the long run, tend to destroy human pride and personality.

Puerto Ricans oppose bill 2111 because it differs mainly to bill 1702 in that it delays for 4 years the entire burden of a tax that we cannot and should not bear now or 4 years from now.

In 4 years the tax will amount to approximately \$17 million; that is also approximately 10 percent of the cost of this country's rice program for 1964.

The cost of a rice program under foreign aid programs should not be charged or shifted to our consumers involved in a stage of economic growth as we are in Puerto Rico for the last 20 years. We have been fighting poverty and any legislation with the economic impact of either bills 1702 or 2111 will cause a drawback to our efforts and to the efforts of this magnificent country that has helped us in our economic growth for a better Puerto Rico. Puerto Rico is a show window of what willpower, good faith, determination, and honesty can accomplish when these elements work together.

For the reasons mentioned in this brief, the consumers of the island of Puerto Rico oppose the approval of the amendment to title III as contained in Senate bills 1702 and 2111.

The CHAIRMAN. Thank you.

Mr. ALIOTO. I have been authorized by Mr. Polanco, the Puerto Rican Resident Commissioner, to advise you that it had been his intention to be present this morning to inform the committee of the opposition of the Commonwealth of Puerto Rico to title III. Mr. Polanco was urgently required today in Puerto Rico and he went down there. But he has asked me to say to you that on his return on Monday he will file a statement with you—he would like to have permission to do so—to discuss the situation directly at that time.

The CHAIRMAN. This record will be open until July 1 so that he will have ample time to send the statement in.

(The statement follows:)

STATEMENT OF THE HONORABLE SANTIAGO POLANCO-ABREU, RESIDENT
COMMISSIONER OF THE COMMONWEALTH OF PUERTO RICO

Mr. Chairman, my name is Santiago Polanco-Abreu. I am the Resident Commissioner of Puerto Rico and my office is in the Cannon Building, House of Representatives. I thank you for the opportunity to express my views on the legislation before you.

At the outset, I should like to express my appreciation and admiration to the Senate Committee on Agriculture and Forestry for its dedicated work and diligent efforts to deal effectively and fairly with the difficult problems involved in this legislation and for its obvious determination to report out the best possible bill for the benefit of the Nation and for all its people.

Because of the questions inherent in our economics problems and because of the resolving of these questions is going to affect, more than anyone else, the people who live under the U.S. flag, I should like to address myself to the humanitarian aspects of the problem, with special reference to title III, which concerns rice, and with particular reference to its effect on the people living in Puerto Rico.

Here in continental United States, it is difficult to visualize how important a 5-cent rise in the cost of a pound of rice can be in Puerto Rico. To most Americans, rice is only a marginal part of the family diet, and a negligible item of the family's overall budget.

But in Puerto Rico, rice is the staff of life—the principal food of at least two meals a day in most Puerto Rican families. A 5-cent rise in the cost of a pound of rice means a 42-percent jump in the cost of the basic part of their diet. To an average American family in Washington, the impact would be about the same if the family's meat bill jumped 42 percent overnight.

For Puerto Ricans, therefore, title III of S. 1702 is not a simple matter of economic abstractions, or something which indirectly affects some remote cost-of-living statistical index. It is a matter of immediate and crucial concern to families of less than \$5,000 annual income, which means 83 percent of all Puerto Rican families; they would have to pay \$13,500,000 of the \$16,800,000 which would be added to Puerto Rico's annual grocery bill as a result of a 5-cent price rise.

To families of less than \$3,000 annual income, which means 60 percent of Puerto Rican families, the impact of this bill would be dramatic. They, the group least capable of absorbing a sharp increase in their food bill of any group in the Nation, would have to absorb 57 percent of the increased cost of rice.

It is, therefore, in human terms, and in awareness of the severe hardship it would visit on over 1,500,000 people in the Commonwealth of Puerto Rico, that I urge the committee to review title III of this bill.

Puerto Rico will be an important beneficiary of the poverty program. But to the poor people of Puerto Rico, the benefits of this splendid program will more than cancel out if their grocery bill for rice jumps 42 percent.

Let me give you a clearer picture of the human realities of Puerto Rico, and the daily life of its people. I know of no better way to bring home fully the impact of this bill.

First of all, let us remember that Puerto Rico is still very poor by U.S. standards. We are very proud of the fact that we have been able to raise our per capita income from \$121 in 1940 to \$832 today, but this is still a far cry from the average per capita income of \$2,500 in the United States as a whole, or \$3,500 in Washington.

I have mentioned that 60 percent of Puerto Rican families (with an average of 5.2 persons in each family) have an annual income of \$3,000 or less. And it is this income group for whom rice is the very heart of the family's diet. I might point out that 41 percent of Puerto Rican families have an annual income of less than \$2,000, and 20 percent actually live on an income of less than \$1,000 a year.

For families of such modest income, moreover, food takes a much larger percentage of their overall expenditures than for families of more comfortable circumstances. (A Puerto Rican family with a \$2,000 income, for example, spends 54.1 percent of its total income for food, while a U.S. family in the median income bracket for \$6,249 (with an average of 3.36 persons in each family) spends only 20 percent of its income for food.)¹

¹ These are latest available figure sfrom the U.S. Department of Commerce (Census Bureau) and Department of Labor.

Knowing these facts, we begin to have some idea of the impact of a 5-cent rise in the cost of a pound of rice in human terms. We start with families already extremely poor and very large by U.S. standards, who are obliged to expend a very heavy percentage of their modest means for food. Their diet, in turn, runs very heavily to rice. The average Puerto Rican eats 119 pounds of rice a year, against the U.S. average of 7 pounds. Knowing this, it is not difficult to project what a 42-percent price rise in rice will mean to the average Puerto Rican. He has the choice of either two things: To reduce his consumption of rice, his basic food, by one-third, or to reduce his outlays for clothing, housing, and other items of the family budget severely to compensate for the sharply increased cost of rice. In either case, the hardship on the 60 percent of Puerto Rican families with incomes of less than \$3,000 would be acute.

We all know, of course, that it is in no way the intent of Congress to work such hardship on the Puerto Rican people. On the contrary, the application of the poverty program to the Commonwealth makes very evident the sincere concern of Congress for bettering the life of those Puerto Ricans who still live in poverty.

I am sure that, when this bill was drafted, the framers were unaware of the severity with which it would strike the poor people of Puerto Rico.

The objectives of the bill are laudable. But the human price which would be paid in Puerto Rico as a result of title III is far too great to pay. I, therefore, most strongly urge that the committee and Congress disapprove this title of S. 1702, out of humanitarian consideration for the people of Puerto Rico, and in full knowledge of the severe hardship this title would visit on them.

(The attachments to Mr. Polanco-Abreu's statement are as follows:)

STATEMENT OF JENARO BAQUERO, SECRETARY OF COMMERCE, COMMONWEALTH OF PUERTO RICO

Mr. Chairman and members of the committee, I welcome the opportunity to explain the position of the government of the Commonwealth of Puerto Rico with respect to this bill and to furnish the necessary facts and information to justify that position.

Our department of commerce has thoroughly studied the structure of the rice market in Puerto Rico. From that study we have obtained certain facts that we consider very relevant and pertinent in considering this bill.

1. Our 2.6 million population consumes some 3.2 million hundredweight of rice yearly. From this total, around 3 million hundredweight are dollar purchases and the rest is moved under government welfare programs. This represents a per capita consumption of approximately 140 pounds per annum.

2. Local production as well as imports of rice from foreign areas are negligible. Therefore all the rice we consume at present is supplied by U.S. producers.

3. Our share of the total domestic consumption for the entire United States is well above the 10-percent mark.

4. Rice is a basic, and probably the most important, foodstuff on our diet. On the average each person consumes between 5 and 6 ounces of rice daily.

5. The dependence on rice for nutrition is greater among the lower income families. Sixty percent of the Puerto Rican families receive an annual family income of less than \$3,000. Under the Federal definition they are classified as "poor."

6. Every cent increase on the price of a pound of rice will cost Puerto Rican consumers more than \$3 million a year. It is estimated that as a result of the program changes under consideration the retail price of rice will increase by 4 to 6 cents per pound. Therefore the total cost to our families will be between \$12 and \$18 million a year. This is more than what at present we can afford to spend yearly in the construction of schools and hospitals together.

7. This drain in purchasing power will have adverse indirect effects in business activity and employment. Furthermore a reduction in effective demand for rice will not only hurt mainland producers but will also hurt the three mills now operating in Puerto Rico.

8. The current retail price of rice averages 12 cents per pound. An increase of 4 to 6 cents in this price will represent a 33- to 50-percent increase in price. No matter how inelastic you may consider the demand for rice, you have to expect that a price increase of that magnitude will have to produce a significant reduction in demand.

9. Despite a notable increase in population, total rice consumption has re-

mained relatively stationary during the last decade. This suggests that the demand for rice may not be inelastic at all.

10. In fact local distributors have had to spent considerable amounts of money in advertisement and promotion to keep the effective demand at that level. Competition is so keen that the market retail price of rice has remained stable during the last decade in spite of considerable increases in marketing costs and a 26-percent increase in the general consumer's price index.

11. Insofar as rice can be purchased from foreign producers (C.F., the Guianas) at a price slightly higher than that of the United States rice (C.I.F., San Juan, tariff included), an increase of 4 to 6 cents in the retail price of United States rice will price it out of the Puerto Rican market.

12. An efficient public policy requires that its different programs be consistent with each other and harmonious with the basic goals of the society. If we let our farm and pricing programs go opposite to our welfare programs, only waste and useless bureaucracy can result. The two programs will just neutralize each other. Both, or at best one of them, will be wasted. This seems to be the case with the President's war on poverty program and the present rice program. The second, seriously hurts the same income and social sectors that the first attempts to help. In Puerto Rico, for example, if the provisions of title III of H.R. 7097 are applied in its present form, they will more than upset the benefits we expect from the war on poverty program.

When you take away \$1 from the rich to give it to the needy, at least you can justify your action arguing that a net gain in total welfare resulted insofar as the sacrifice imposed on the rich by taking his dollar is less than the satisfaction given to the poor who received it. But when you take away from a poor sector and give to another poor sector the same amount—less administrative or bureaucratic costs—the only thing you have for certain is that you make one of the two more poor. The transfer will produce a net loss in welfare to the community as a whole.

13. Conclusion: We don't want special treatment unless it is clearly warranted. We are thoroughly convinced that the changes contemplated under this program will inflict undue hardships to the Puerto Rican families. Furthermore, the adverse impact of this program on the lower income sectors of the United States and Puerto Rico will not only prove it to be very unsound and ill-advised fiscal policy but in practice will be in contradiction with the traditional moral foundation of the U.S. economic policy and the public policy of the present Washington administration.

Mr. Chairman and members of the committee, based on all the considerations hereby expressed, the government of the Commonwealth of Puerto Rico, respectfully express its firm opposition to title III of H.R. 7097, now under your consideration.

PONCE, PUERTO RICO,
April 27, 1965.

HON. SANTIAGO POLANCO-ABREU,
Resident Commissioner of the Commonwealth of Puerto Rico,
Washington, D.C.

DEAR RESIDENT COMMISSIONER POLANCO-ABREU: The Ponce Chamber of Commerce wishes to submit to you our views regarding the dispositions covered by title III of bill of S. 1702 dated April 5, 1965, now under consideration by Congress.

Puerto Rico, with a population of over 2,300,000 inhabitants which consume over 300 million pounds of rice yearly, stands to receive a serious setback in its economy and a tremendous harm to its people if the subsidy for this staple is eliminated, which will result in an increase of 25 percent per pound of rice.

Rice constitutes the basic food article of the poor people of Puerto Rico, and is consumed more frequently than any other food because of the nutritional value it affords and the fact that it costs cheaper than any other foodstuff.

We respectfully appeal to Congress to consider the dispositions as covered by title III in the aforesaid bill of S. 1702, now under discussion. If the war on poverty is to be successful, this is an instance where it can render the most good. Puerto Rico depends on the mainland for most of the foodstuffs, rice constituting its mainstay.

Cordially yours,

Ponce Chamber of Commerce
MANUEL AVILÉS TORO,
President.
VICENTE ORTIZ
Secretary.

COROZAL, April 22, 1965.

HON. ROBERTO SANCHEZ VILELLA,
La Fortaleza,
San Juan, Puerto Rico:

Request drastic opposition to title 3 of H.R. 7097 of the U.S. House of Representatives.

RAMON RAMOS SUCRS.

NARANJITO, April 22, 1965.

HON. ROBERTO SANCHEZ VILELLA,
Governor of Puerto Rico,
San Juan, Puerto Rico:

Request most drastic opposition to title 3 of H.R. 7097 of the U.S. House of Representatives.

GASPAR RODRIGUEZ,
Businessman.

NARANJITO, April 22, 1965.

HON. ROBERTO SANCHEZ VILELLA,
La Fortaleza,
San Juan, Puerto Rico:

Request Honorable Governor your drastic opposition to title 3 of H.R. 7097 of the U.S. House of Representatives.

JESUS MORALES.

SANTURCE, April 23, 1965.

HON. ROBERTO SANCHEZ VILELLA,
La Fortaleza,
San Juan, Puerto Rico:

Requesting your drastic opposition to title 3 of H.R. 7097 of the U.S. House of Representatives.

OBDULIO MATIAS HERNANDEZ,
Haydee Rexach 412—VP.

TOA ALTA, April 27, 1965.

HON. GOVERNOR,
San Juan, P.R.:

Request your drastic opposition to title 3 of H.R. 7097 of the U.S. House of Representatives.

JUAN DIAZ ALFARO,
Wholesale Distributor of Foodstuffs.

CAGUAS, April 28, 1965.

HON. ROBERTO SANCHEZ VILELLA,
Governor,
San Juan, P.R.:

Request your assistance in opposing title 3 of H.R. 7097 of the U.S. House of Representatives which provisions would cost the people of Puerto Rico \$15 million per year.

GUMERSINDO VIERA.

MOROVIS, May 1, 1965.

HON. ROBERTO SANCHEZ VILELLA,
Governor of Puerto Rico,
La Fortaleza, San Juan, P.I.:

Urgently request drastic opposition to title 3 of H.R. 7097 of the U.S. House of Representatives.

FELIPE MALDONADO,
Businessman.

TOA BAJA, April 27, 1965.

HON. ROBERTO SANCHEZ VILELLA,
San Juan, P.R.:

Request most drastic opposition to title 3 of H.R. 7097 of the U.S. House of Representatives.

CARMELO RIOS.

PRESENTED BY JUAN PENAGARICANO

To: House Agricultural Subcommittee on Rice.

From: Consumers of Puerto Rico.

Subject: Amendment to sections 380A through 380P of the Agricultural Act of 1938, as amended.

I am speaking on behalf of 2,350,000 consumers of rice—residents of Puerto Rico. Rice that is enriched with certain vitamins and mineral elements by legal requirement approved in 1952, is one of the main staples of our population. The yearly consumption per capita is 134 pounds. Although this average consumption is high, still, the individual consumption of the poorer classes is much higher, close to 150 pounds. The consumption per capita in 1955 was 135 pounds which shows that the preference for rice has been maintained during the last 10 years. It has been traditionally the main staple of our consumer.

The importation of rice during 1964 was 3,217,000 hundredweight, all from the United States. Of this total, 75 percent comes from California and the rest from the Southern States, principally Louisiana. For the last 20 years all importation of rice in Puerto Rico has been totally from the United States except some minor shipments received in 1946 from the Dominican Republic.

Our present yearly income per capita is \$830, raised from a little over \$100 20 years ago. Although our income per capita is the second highest in Latin America, it is lower than that in the State of Mississippi which is the State with the lowest income per capita in the United States. The income per capita in Puerto Rico has been raised to the present level with great effort of the combined resources of private industries and governmental development agencies. Any drain on the pocket of our consumer affects our whole economy, main reason for still maintaining in Puerto Rico a selective system of price control, initiated in 1942 during the Second World War. Although the control on the price of rice was lifted in September 1954, the price to the consumer has been maintained at 13 cents per pound. It is of great significance to note that the price of rice to the consumer has been close to 13 cents per pound since 1947, while the index of prices has increased by 30 percent.

The shippers of rice from the United States, conscious of the effect that an increase in the price of rice has on the consumer, have established on the island installations to receive the grain in bulk and process it locally. The savings in the transportation and in the process of preparation and packing have made possible the maintenance of the price to the consumer at 13 cents a pound.

On the basis of the present annual importation of rice (3,200,000 hundredweight) an increase of only 0.01 per pound in the price of rice represents an additional cost to our consumers of \$3,200,000 per year.

Any place in the United States where the consumption of rice per capita is as high as it is in Puerto Rico would have to oppose and object, for its economic implications to the consumers, to an increase in the price of rice.

Puerto Rico is the first market of U.S. goods and services in Latin America; it is the second market in the Western Hemisphere, only next to Canada, and it is the fifth market for U.S. goods and services in the world. This is the potential of the consumers on an island 100 miles long and 30 miles wide. Any legislative measure aimed to increase the cost of a product like rice should be studied very seriously and carefully when it affects deeply one of the main markets of American productivity.

The consumers of Puerto Rico do not want to suggest any other measure which would serve the purpose behind the amendment to sections 380A to 380P of the Agricultural Adjustment Act. The economic principle of balance of conveniences has to be considered in order to correct an economic evil without causing a worse one.

For the reasons mentioned in this brief, the consumers of the island of Puerto Rico oppose the approval of the amendments to sections 380A through 380P of the Agricultural Adjustment Act of 1938 as included in the House bill 7097 of April 5, 1965.

The following resolution was passed by the Municipal Assembly of San Juan, P.R., as certified by Mr. Francisco Garcia Arache, secretary of the municipal assembly, in a statement which reads:

I certify that Resolution No. 37, of the series 1964-65, entitled: "Resolution to express the opposition of the municipal assembly to the proposed raise in

the price of rice, and for other purposes," has been passed by the Municipal Assembly of San Juan, as per accompanying copy.

Given in San Juan, P.R., on the seventh day of June 1965 to be sent to the Honorable Santiago Polanco Abreu, Resident Commissioner of Puerto Rico in the United States, I sign and affix the official seal.

FRANCISCO GARCÍA ARACHE,
Secretary of the Municipal Assembly.

MUNICIPALITY OF SAN JUAN, SAN JUAN, P.R.

RESOLUTION No. 37—SERIES 1964-65—To EXPRESS THE OPPOSITION OF THE MUNICIPAL ASSEMBLY TO THE PROPOSED RAISE IN THE PRICE OF RICE, AND FOR OTHER PURPOSES

Whereas rice is a basic element in the diet of the great majority of the Puerto Ricans ;

Whereas Puerto Rico is the largest rice consumption area of the United States ;

Whereas the bill H.R. 7097 presently pending action in the U.S. Congress would cause a raise of from 4 to 6 cents in the price of a pound of rice ;

Whereas this raise in price due to the high consumption in Puerto Rico would mean close to 50-percent raise in the price to the consumer ;

Whereas this raise will turn out to be a heavy burden to the family head of lower income whose main staple is rice ;

Whereas this raise in the price of rice would mean an additional expense of between \$12 and \$18 million for the consumers of Puerto Rico ;

Whereas it is just and proper that the people of Puerto Rico be protected against the bill that does not take into consideration the consumption of rice in Puerto Rico as a basic commodity: Now, therefore, be it

Resolved by the Municipal Assembly of San Juan, P.R. That—

Section 1. To express our strong opposition to such raise in the price of rice as proposed in the legislation presently pending consideration in the Congress of the United States because we consider such legislation discriminatory against the people of Puerto Rico.

Section 2. That copies of this resolution expressing the opposition of this assembly against the proposed raise be sent to the President of the United States, to the majority leader of the Senate of the United States, to the Speaker of the House of Representatives of the United States, to the Resident Commissioner of Puerto Rico in Washington, to the chairmen of the Committees of Agriculture in the House and in the Senate of the United States, to the Governor of Puerto Rico, and to the Presidents of the Senate and the House of the Legislature of Puerto Rico.

Section 3. To express our support to the efforts made by the honorable secretary of commerce of Puerto Rico and the Resident Commissioner of Puerto Rico in Washington.

Section 4. Any ordinance, resolution, or agreement, or part thereof, that in all or in part may be in conflict with the present resolution are hereby abolished.

Section 5. This resolution will take effect immediately after being approved.

I, Francisco Garcia Arache, secretary of the Municipal Assembly of San Juan, Puerto Rico, certify that the above is a true and exact copy of Resolution No. 37, series 1965-65, passed by the Municipal Assembly of San Juan in its extraordinary session held the 18th of May of 1965 with the affirmative votes of the Assemblywomen Mrs. Monina Mendoza de González and Mrs. Carmen Milagros Santiago; and the Assemblymen Mr. Rafael de J. Cordero, Pedro Díaz Viera, Eugenio Fernández Cerra, José Juan López, Manuel Maldonado Denis, Félix Morales, José R. Noguera, Vincente A. Pérez, Agustín Rexach, Jr., Eduardo Umpierre, and the President, Mr. Modesto Rivera; being absent from this session the Assemblymen Mr. Teodoro Moscoso, Carlos Muñoz McCormick, Pedro E. Purcell, and José Rafael Velázquez. This resolution was approved by the acting mayor of the municipality of San Juan on May 21, 1965.

I certify, furthermore, that according to the minutes under my custody all the assemblymen were duly summoned for this session in the form prescribed by law.

And to so attest, and for the above purposes I issue the present copy and I affix in the two pages of the text the great official seal of the municipality of San Juan, P.R., on the 24th day of May 1965.

FRANCISCO GARCÍA ARACHE,
Secretary of the Municipal Assembly of San Juan.

Mr. ALIOTO. We would like to point out that of the 12,500,000 pockets of table rice sold into domestic commerce, 4,100,000 pockets are sold in Puerto Rico and Hawaii. Those two places alone account for one-third of all of the table rice that is sold in domestic commerce.

Mr. Glen Harris, who is one of our directors, has some observations on this bill that we would like to have before the committee before presenting what we believe to be a constructive proposal to solve the Department of Agriculture problem and the rice industry's problem.

The CHAIRMAN. We will be glad to hear from you.

Mr. HARRIS. Mr. Chairman and members of the committee, as previously stated, I will not read my statement. I understand that it will be included in the record, but there are three comments that I would like to make:

First, with regard to my statement, I prepared it before I had an opportunity to review S. 2111 and I would simply like to say that the same objections that I indicated in my statement as to S. 1702 also apply to S. 2111 insofar as the certificates and the consumer tax is concerned. In my view there is no advantage in imposing this tax progressively. It simply disturbs the industry for a longer period and causes more problems, probably, than if it was all at once, so that I would be very much concerned about imposing it in either way.

The CHAIRMAN. I wish to say that I put in S. 2111 merely to have something to talk about and to discuss.

Mr. HARRIS. I understood that from what you said yesterday, but I thought that I should say this now.

The CHAIRMAN. I so stated when I introduced it.

Mr. HARRIS. I would like to have my opinion in the record, too, and I understand that is a matter of working something out.

The second point I have is that I want to emphasize the rice industry's cooperation with the rice program. That is, the programs of the Department of Agriculture over the years. We have had marketing quotas in effect by vote of the growers since 1955, and we have followed the plan provided by the present legislation to keep our supplies in hand. We have done a good job, in my opinion, in that we do not have any burdensome carryovers. We have worked hard as a good many witnesses have indicated in working off the surplus and moving the rice. And I think that the industry can be proud of that record. It does vary from the record of some of the other industries where there is a lack of cooperation, instead of having this kind of cooperation from the industry itself.

Also, I want to say that we in California are quite proud of our cooperatives. We believe that we perform a substantial part of the function of providing price supports on out to the grower himself as the result of having the growers as members of our cooperatives; and, therefore, the Department's programs in the area aid them in stabilization with our organization of the California industry.

The CHAIRMAN. By the way, in maintaining a cooperative, do you charge the growers a percentage of their sales—how do you handle it?

Mr. HARRIS. The way, at least that our cooperation works, and all of the cooperatives in California are similar, is that the cost of the milling, the transportation, the handling, and the advertising, this sort of thing, is charged against the total return from the milled rice, but all of the balance of it, with the exception of 10 cents per hun-

dredweight, is withheld, is returned to the growers, so that the growers participate to the full extent of the market for the rice that is sold.

The CHAIRMAN. That is a real cooperative.

Mr. HARRIS. The 10 cents per hundred is returned to the grower in the form of stock which Mr. Alioto explained.

The CHAIRMAN. I understand.

Mr. HARRIS. And, finally, returned to him in cash if he desires it at a later date.

The third item I should like to make is a little comment on this, to support the indications of Mr. Alioto that he made a few moments ago, that there are, I believe, great savings possible to the Government if more encouragement can be given to dollar sales with a little more general understanding and use of the regulations and dollar allowances and the payment in current export equalization fee, so that we might move our products of rice not only in California, but in the whole United States into the dollar markets, rather than put a high percentage into Public Law 480 outlets as we have done in the past.

I think that Public Law 480 distribution has served a very worthy purpose, because rice is needed—it is not just a disposal of surplus in the ordinary sense that might apply to some other commodities, because I sincerely believe that we have done a lot of good with the delivery of this rice—it is a strategic weapon method of implementing our foreign policy, but I do think that we could, probably, under present legislation save a considerable amount of the \$50 million that the Government is indicating they would like to save by getting a bigger percentage into dollar sales.

Mr. Gaines, I believe, talked to this yesterday. I think it is a very sound idea. And I think, possibly, that Mr. Alioto will enlarge on this a little bit more later.

I thank you.

(The prepared statement of Glen R. Harris follows:)

STATEMENT BY GLEN R. HARRIS, DIRECTOR, TESTIFYING FOR THE RICE GROWERS
ASSOCIATION OF CALIFORNIA

My name is Glen R. Harris and I reside near Richvale, Butte County, Calif. I am presently a member of the National Rice Industry Advisory Committee. I am presently and have been for 30 years a director of Rice Growers Association of California. My family has planted a rice crop near Richvale each year since 1913 and I myself have done so each year since 1924. I have served as a member of the California ASCS Committee from 1939 to 1948 and as chairman of that committee from 1953 to 1956, I also served as a Director of the Commodity Credit Corporation for about a year in 1948–49. I am greatly concerned about the effect on rice farmers and the rice industry of the proposals contained in title III of S. 1702.

1. While I agree with the desirability of attaining parity prices for farmers in the marketplace, and believe that generally it is only fair for consumers to pay prices which will return to farmers parity for their products including rice, I am deeply concerned about the practical results of the proposed processing tax or certificate to be imposed by the terms of S. 1702 on our industry.

The consumption of table rice is not evenly spread among consumers, but is concentrated largely in the low-income segment of the people of certain areas. Hawaii and Puerto Rico are two of these which are supplied by our California industry and in major part by my association. The average figures as to increased costs due to the imposition of the processing tax do not, therefore, tell the story accurately for the low-income families of these areas. They would pay a much greater extra cost than the 35 cents per person per year quoted. The very people who are to be assisted by the new poverty program will be required to pay an extra amount for their basic food which will largely offset any help given by the poverty program. (In fact, while Puerto Rico would pay about \$15

million per year more for the rice consumed there it is indicated that poverty program grants would only provide about \$7 million to Puerto Rico.)

I am sure that resentment and resistance to these higher costs would result in a serious reduction in consumption, and would largely nullify the time, money, and effort which Rice Growers Association of California and the rest of the industry have expended over many years to promote and develop these markets. I believe that we should be developing and expanding our domestic markets even further. Under this proposal I am convinced that this will be impossible.

I am also convinced that there is little possibility of achieving increased prices from the broken rice sold to brewers or from the very substantial quantities which we sell to breakfast cereal processors. These markets are highly competitive with other grains, and we will lose them if any such substantial increase in price is attempted while other grains, particularly corn, continue to be available at about present price levels. I therefore believe that if we try to raise rice prices anything like the required \$5 to \$6 per hundredweight required to finance this proposal, we will lose a good part of our domestic consumption.

2. I am concerned about the degree of discretion given the Department of Agriculture by S. 1702. Ricegrowers would still be subject to strict acreage allotment and marketing quota controls and penalties but we would not be assured of any minimum level of support, such as the 65 percent of parity provided by present law. Instead the Secretary could set a level anywhere from zero on up to parity on loans and anything from 65 percent of parity up on certificates and he could reduce acreage allotments drastically. Also, if the higher prices for domestic rice result in reduced utilization, as I believe would occur, the Secretary, under S. 1702 has complete authority to reduce the domestic percentage year by year. The reasonable conditions necessary for a favorable vote on marketing quotas are no longer present. Farmers nowadays must plan more than a year ahead and the changes from year to year will cause resentment.

3. Much has been said of the high cost of the present rice program, in comparison with wheat and other programs. The Department states that the cost of the rice program is about \$100 per acre, or $2\frac{1}{2}$ times that of the wheat program. It seems to me that production costs per acre and production food per acre should also be considered. The harvested yield per acre of wheat, according to the Department is about 27 bushels per acre, or 1,620 pounds, while the average for rice is 41 hundredweight, or 4,100 pounds, just about $2\frac{1}{2}$ times as much. Production costs per acre are also higher for rice, again about $2\frac{1}{2}$ times, and farm value of the average production is about three times as high for rice as for wheat. We do not have a burdensome carryover of rice, so storage costs to CCC are not currently very great compared to wheat.

Further, out of the total cost to the Treasury of the rice program, quoted as about \$180 million in 1963, about \$126 million was for costs involved in Public Law 480 shipments. So far as California production is concerned, very little of it has been shipped under Public Law 480 in recent years, so we have not shared directly in this cost, but on a national basis it seems to me that this cost should not be used to condemn the present rice program. Rice has a peculiarly important place in our foreign aid and food-for-peace programs and perhaps in some cases performs as great a service for our foreign policy as guns and missiles, which also cost the Treasury considerable sums. I also suggest that if the payment-in-kind regulations and rates for foreign sales for dollars were rearranged somewhat to put more incentive on pushing dollar sales, costs might be reduced greatly compared to those for sales under Public Law 480.

4. In summary, I am convinced that the proposals for rice contained in title III of S. 1702 will result, within a short time, in lower incomes for ricegrowers, either through reduced domestic consumption and reduced average prices or buildups in CCC stocks and carryover with resultant acreage reductions, or a combination of the two, and that the desirable goal of obtaining parity prices directly from domestic consumers will not be attained by the proposed methods. Instead, the industry will be demoralized, domestic consumption will be lost, and land coming out of rice will be used to increase surplus production of other crops.

I therefore respectfully urge the committee to eliminate title III from the bill.

Thank you.

Mr. ALIOTO. Before calling on Mr. Drew, who represents another area in California, I do want to make plain for the record that none of us from California came here today to apologize for the existing program. We think it is the best of the commodity programs. I can say truthfully that there is not a ricegrower anywhere in California—and we have 3,000 of them out there—who is not aware of the tremendous contribution that the Senator from Louisiana has made in supporting these programs. We believe his help influenced more people than in any other commodity program and that is why we believe it contains, within itself, the solution, even to the question of the question of economy.

Mr. Drew, who represents our growers from Sutter County in California, has, in addition to a farm background, a background of administration in farm programs. I would like to ask him now to give his comments.

The CHAIRMAN. You may proceed, sir.

Mr. DREW. Mr. Chairman and members of the Senate Agriculture Committee, as a rice producer for many years and a director of the Rice Growers Association of California, I am only one of many California growers opposed to the certificate plan.

Title III provides the Secretary with questionable broad discretionary powers to determine the amount to be received by growers. Except for 60 million hundredweight to be used as minimum production, the Secretary has almost complete authority to make decisions in the operation of the rice programs.

I might comment that that is putting a little bit too much power in one person's hands. We feel that there should be a deterrent there so that the industry might have a chance to help out. We are very critical of that part.

California growers are opposed to title III which provides for grower marketing certificates to be issued on the basis of national averages of domestic and export sales. For many years the bulk of California rice has been sold in the domestic market. The results are that Government cost under price support programs for California growers have been at a minimum. True the emphasis on domestic distribution has resulted, at times, in lower returns to California growers. It has been, and now is, our belief that less reliance on Government financing is the soundest basis for a prosperous agriculture. Our record of marketing the California rice crop stands as sound evidence we need to continue and extend our efforts in marketing without the depressing effect the certificate plan would have on our domestic markets.

Title III proposes to provide grower marketing certificates on the basis of 35 to 40 percent of our allowed production. This is the national average of sales in domestic markets. Since sales of California rice have averaged historically close to 60 percent in domestic markets, the proposed policy of providing certificates on a national average basis transfers farm income from California to the States selling the lowest percentage of their production in domestic markets. Acreage allotments to each State are based on history. It would have been more equitable to allocate grower marketing certificates on the same basis. California growers oppose the proposed national average method as discriminatory and contrary to the Department of Agriculture's present policy of allocation.

While other witnesses will discuss numerous objections to the provisions of title III, I would like to emphasize to this committee that California growers are virtually unanimous in their opposition to title III in its entirety. We recommend that the economies needed should be developed under provisions of present legislation.

We trust the committee will give full consideration to the fact that California rice has not been placed under loan for several years and none is anticipated to be placed under loan in the ensuing crop.

Less than \$9 million has been expended in the form of export subsidies for California rice in dollar markets this crop year out of a national expenditure of \$180 million. Our present marketing achievements show why California farmers prefer continuance of the present program. Substantial savings can be accomplished under present legislation. Thank you.

The CHAIRMAN. Thank you.

Mr. ALIOTO. Next is Mr. Robert McGowan, who represents another area in California and with your permission he would like to say a few words.

The CHAIRMAN. You may proceed.

Mr. MCGOWAN. Mr. Chairman and members of the committee, my name is Robert T. McGowan, I am a director of the California Rice Growers Association.

I was here all day yesterday and listened to the witnesses, and, so that there will not be any repetition, I would like to read my short statement.

As a ricegrower for many years and a director of the Rice Growers Association of California, I am but one of thousands of California growers who are opposed to the certificate plan for rice included in title III. While other witnesses will discuss objections to the many phases of title III, I will cover but a few.

California ricegrowers have prospered under the provisions of present legislation and with a minimum of Government expense as compared to the total national cost. We have grown varieties of rice salable in domestic and dollar export markets therefore limiting the need for Government expense in Public Law 480 programs. While we support efforts to reduce Government expenditures, we advocate that economies be accomplished under existing legislation.

Title III establishes a program providing minimum production of 60 million hundredweight, which, divided on a national yield basis, would reduce the minimum acreage from 1,652,596 acres to 1,308,044 acres, roughly, and could reduce the national acreage allotment by as much as 20 percent.

California growers are among the most efficient in the Nation, and recent average yields in excess of 50 hundredweight per acre are greatly in excess of the national average. Future acreage allotments under title III would be based on national average yields which could consequently reduce the acreage of the most efficient producers, a very uninviting prospect to California growers. Any legislation restricting acreage certainly should not penalize efficiency.

Title III has other regressive effects since, in discouraging the domestic sales of rice through the imposition of a milling tax on domestic shipments, it will cause a reduction of grower marketing certificates in coming years, thus further reducing farmer income.

Both growers and millers are greatly concerned with the obvious potential enforcement problems under title III at both the grower and mill level. Administrative and enforcement staffs of the Agriculture Department will necessarily be increased to cope with such problems. Our present program is virtually free from the problems of compliance.

As a farmer, I am opposed in principle to any Government program which imposes a consumer tax, to be borne by those least able to pay, to finance either rice support or foreign aid programs. Foreign aid programs rightfully should be financed by Government appropriation, thus insuring that the burden will be borne by all equitably. Support programs also result from governmental policy to provide farmers with income in relation to other segments of our population and should be financed as a part of the Federal budget and not imposed unfairly on low-income groups.

California ricegrowers support all sound efforts toward economy in the agriculture budget but urge that these efforts be directed in such a way that the low-income consumer of rice and the efficient California rice industry not be adversely affected as would result in title III.

The CHAIRMAN. Thank you, Mr. McGowan.

Mr. ALIOTO. Mr. Chairman, we would like the record to show that 60,000 petitions were signed by residents of Puerto Rico and presented to the House Committee on Agriculture. And we make that same presentation here. They were not solicited professionally; 60,000 people signed the petitions. And there were 30,000 who signed them in Hawaii.

In conclusion, we have an economic analysis that I think will appeal to the committee. Remembering the economics of how \$8,500,000 generated \$36,500,000 plus another \$1 million—remembering that California now is selling only in dollar markets—and this is the figure that I gave you, only in the dollar markets—there is no title I, Public Law 480 in California—we believe on any sound economic analysis basis that it would be possible under the existing legislation for the Department of Agriculture to shift at least 250,000 tons of rice from Public Law 480 into the PIC program, or under the dollar market.

This is the basis for our analysis.

In this present year the Red Chinese have sold 120,000 tons of rice to the Japanese. We think under a workable subsidy program that does not have any regard to just the calendar, that remains low in the summertime and high otherwise, without reference to the world markets, one that would be flexible and realistic, in getting the difference between the world price and the domestic price, it could have resulted in that 120,000 tons being supplied here.

In addition to that, the Red Chinese—and we do not get the figures from them, because they are not available from them, we get them from the import countries—the Red Chinese sold approximately 200,000 tons in Africa, Europe, and Hong Kong, in those three places.

The CHAIRMAN. Let us take Japan. Do you not think that Japan purchased that rice in order to trade with China?

Mr. ALIOTO. Part of it is political and part is otherwise, Senator, but we do not think that it is all political. We think a portion of

that could very well have gone to American rice under a more realistic subsidy.

The CHAIRMAN. What do you mean by "a more realistic subsidy"?

Mr. ALIOTO. A realistic subsidy in our view of it is one that accounts for the exact difference between world price and the domestic price, and even if it is a little bit more than has been given in the past. Under the economic analysis we have made, and we think it is sound, the \$36 million actually returned the subsidy in the form of taxes to the Government and generated this flow into the country. And a little bit more subsidy would have enabled the sales to have been made.

The CHAIRMAN. You mean for cash?

Mr. ALIOTO. Yes. A realistic subsidy. For example, we would not worry about the calendar, about the season—it would be flexible—it would be done on a day-to-day basis in the light of all of the economic factors and we think, therefore, that some of that could have been diverted.

Another situation prevailed last year. Brazil came up with 300,000 tons of rice in the export market—just out of nowhere, nobody was looking for it. Some of it is still hanging on the market, but they sold a substantial part of it. We could have competed in exactly the same market where Brazil sold a substantial portion of this rice.

The Egyptians came up with 400,000 tons of rice for export last year, a little bit more than they had in prior years. And we think that with a proper subsidy that American rice, principally southern rice, could have been sold in the markets that were sold by Brazil, Egypt, and Red China. We are not talking about the exporting nations, as you can see. Among the three of them they shipped 1,250,000 tons of rice to the destinations I have mentioned.

I am leaving out places like Ceylon, where the Red Chinese ship under political programs that we could not touch on a dollar basis anyway. I am just talking about the competitive dollar markets. Out of that 1,250,000, I think it is a fair economic analysis to say that on a competitive basis American rice could have gotten, at least, 250,000 tons of that if we had shifted the 250,000 tons from Public Law 480 side to the dollar market side. And you would have not only the economy that the Department of Agriculture is talking about, but you also would have had an expanding trade, a competitive trade and all of the things that flow from that. That would be of interest to the American-flag, railroad carriers and port charges, et cetera, and on the analysis that subsidy would be largely returned both in gold flow into the United States and returned in income taxes. I think this analysis is correct.

You can see that within the framework of existing legislation the Department of Agriculture if it would seriously sit down with us and work out a workable subsidy that this thing can be worked out.

Finally, I just want to say one more thing. I am not criticizing anybody. I am making an objective statement of facts about this.

This present rice program was handed to us in January at a meeting of the National Rice Advisory Committee. Before we came here I called the Department of Agriculture and said, "Would you send me out what you are going to propose in connection with this legislation so that I can discuss it with our farmer groups in California, with

other members of the industry and come back with some kind of constructive proposal?"

They said, "We do not have anything that we can send you."

Se we showed up at the meeting. The program was handed to us. I personally at the meeting asked the opportunity to take the program back to California to discuss it with the California farmers and then to discuss it with our Industry Advisory Committee headed by Mr. George Blair, and then to make a constructive proposal on that basis. I asked for another meeting of that Rice Advisory Committee and they said, "We do not know whether we can give you that or not."

Then the legislation was put into the hopper. Then we had a meeting in March in Houston, Tex., an industry meeting, where the industry again opposed the bill and wired the Department of Agriculture that it wanted a meeting to propose to the Department of Agriculture an alternate means of saving the money that they were talking about without the disruptive effects and the 50 percent sales tax on rice that they were talking about. And it was not possible under those circumstances.

The CHAIRMAN. Was that request made after the bill was introduced?

Mr. ALIOTO. Yes, there was a request by telegram sent by the entire industry committee composed of the Southern and California committees—a telegram request was made for a meeting and we were not given that opportunity.

As I say, I am simply stating these facts objectively. I am not criticizing.

The CHAIRMAN. There is no law against criticizing.

Mr. ALIOTO. I am not going to do it. I know that there is no law against it.

What this comes down to is this package that we would like to propose. If there must be legislation it ought to be legislation which continues the present acreage and support at a minimum of 70 percent for a period of 1 year. That is, if there must be legislation at all. Or else a direction or a suggestion to the Department of Agriculture that it should review the existing legislation to accomplish this for one more year. There ought to be, second, a direction or a suggestion from this committee, it seems to me, to the Department of Agriculture that a Rice Advisory Committee meeting be convened immediately to work out a market survey to determine whether or not it is true, as we sincerely believe, that 250,000 tons of rice can be diverted from Public Law 480 immediately to the dollar market.

That, of course, will be mostly the southern rice, because the California rice is going to be preempted by Japan and Okinawa for the next couple of years, in any event.

And, certainly, that we make a concerted attempt to accomplish this and have the whole matter reviewed in the light of the actual results. We think that we can show that with a proper subsidy we can compete in these markets against the Red Chinese, the Brazilians and the Egyptians to save these and that the Department of Agriculture says that they want to save and to keep the wonderful benefits that the United States has under the present program.

The CHAIRMAN. I presume that you were present yesterday when a witness—I do not remember his name now—testified that the cost

to the Government on rice shipped under Public Law 480 was quite a lot more than on rice shipped to the dollar markets. Can you elaborate on that any?

Mr. ALIOTO. The cost of the Government, so far as Public Law 480 is concerned, is the total cost—I mean is \$8 a bag, for example. That is a good figure to use, \$8 a bag is a good round figure as to what it costs the Government under Public Law 480. Under the analysis I have given you the Government would only be paying approximately 23 percent or, say, 20 percent of \$8 a bag.

The CHAIRMAN. That was the \$1.60?

Mr. ALIOTO. Under the subsidy the \$1.60 was for brown rice—it would be a little more for white rice.

The CHAIRMAN. On the average, I mean.

Mr. ALIOTO. Say, \$2 of that \$8 would be the subsidy but on our economic analysis that \$2 comes back and more, both in terms of gold flow and taxes, so that actually the saving is more than \$6 a bag. If we can divert 250,000 tons or 5 million bags from Public Law 480 to the dollar market you are talking about \$30 million right there. And we think that could be a continuing thing, because in a competitive race we are convinced that the quality of southern and California rice will more than compete with the Chinese, the Egyptian, and the Brazilian rice.

The CHAIRMAN. I presume what the witness had in mind was that for the surplus that is sold under Public Law 480, we receive no cash—we receive soft currency that in some cases is not worth very much, we cannot use it. I presume that is what the witness had in mind. In other words, if the soft currencies received under Public Law 480 were as good as dollars the cost of the handling and the administration would not be different.

Mr. ALIOTO. We know that is not true.

Senator MONTOKA. Has not the history on Public Law 480 repayments been that we turn around and make an outright grant?

The CHAIRMAN. Right. That is what I say—that is what the witness had in mind yesterday—that is a total loss to us.

Senator MONTOKA. That is right.

The CHAIRMAN. Because we turned around and we actually loaned the money to the people who bought from us and we got three-quarters of 1 percent interest per year.

Senator MONTOKA. That is right.

The CHAIRMAN. It does not pay for the administration of it.

Mr. HARRIS. Several witnesses have indicated that the total cost of the Public Law 480 sales are all charged up to the rice growers, even though there might be some compensating balance that comes back. We never received any credit in the bookkeeping for those.

The CHAIRMAN. That is right. And even credit in the bookkeeping would not help you much.

Thank you very much, gentlemen.

Mr. ALIOTO. Thank you.

Senator MONTOKA. I would like to ask one or two questions, if I may.

The CHAIRMAN. Proceed.

Senator MONTROYA. You mentioned that it might be feasible to provide a subsidy for the export market of rice. You estimated that the total subsidy might amount to about \$30 million, is that it?

Mr. ALIOTO. No. The example that we gave was just the California example where we had \$36 million of sales. These are the actual figures for this year and it took \$8 million of subsidy to make that \$36 million possible or approximately 23 percent of the total sales.

Senator MONTROYA. But you also mentioned that you thought that we could tap an additional 250,000 tons.

Mr. ALIOTO. That is correct.

Senator MONTROYA. Of the world market.

Mr. ALIOTO. That is correct.

Senator MONTROYA. Over and above what we do now.

Mr. ALIOTO. That is correct.

Senator MONTROYA. What did that amount to?

Mr. ALIOTO. 5 million bags at about \$2 a bag, about \$10 million.

Senator MONTROYA. \$10 million?

Mr. ALIOTO. Yes.

Senator MONTROYA. And assuming that we do succeed in tapping that market through a subsidy, what kind of a surplus would we still wind up with?

Mr. ALIOTO. Well, I do not think with those Public Law 480 programs, which are not just discretionary but are needed in connection with foreign policy, with a realistic subsidy that there is no reason to look forward to any surplus. I am using California as an example again. What has been accomplished in California is not because we have any more talent or anything like that out there—it is just the market conditions have worked that way, nothing goes under the support in California—there is no subsidy.

Senator MONTROYA. But you still have an acreage limitation?

Mr. ALIOTO. Oh, yes. We maintain acreage limitations. That is 1 million 8, and in our proposal, under it it remains 1 million 8 for another year, and it will give us a chance to prove that the dollar market can absorb these savings that the Department of Agriculture wants.

Senator MONTROYA. What is the rice program costing the Government now?

Mr. ALIOTO. They say that it is costing \$180 million, but these figures are not correct. Again I will give you the California example. It is costing them about \$180 million that they are talking about. It is costing them \$9 million in California, that is all. And I think that if the mathematics and the arithmetic were worked out that there would be a proportionate cost in the South compared to California, pretty much along the same figure.

In other words, we are being charged with everybody's program, and this sum of \$180 million includes those credit programs where we are being paid in dollars but we permit the foreign country to pay us back over a period of 20 years. That is being charged, apparently, as a cost that they cannot recover.

Senator MONTROYA. Would you mind submitting a statement at this point in the record to explain the way that the charges against the rice

program, such as you have indicated, are made, and also give a more detailed explanation of it?

Mr. ALIOTO. Yes. We understand, sir, from the figures given by the Department of Agriculture that the whole program costs \$180 million and of that \$180 million, \$130 million of it is accounted for by Public Law 480 shipments, and \$50 million by the general administrative programs. Our view is that none of that \$130 million should be charged against the rice program. We think that these are State Department programs that are being used in furtherance of a political policy and not in furtherance of a policy of just getting rid of something that they do not know what to do with. So we think that the realistic mathematics are that maybe the program was costing less than \$50 million and not \$180 million.

Senator MONTOLA. Thank you.

The CHAIRMAN. Thank you very much, gentlemen.

Mr. ALIOTO. Thank you.

The CHAIRMAN. We are privileged this morning to be visited by Girl Scout Troop No. 645 from south San Francisco, Calif. I do not know whether or not this is by coincidence, but presumably they are good rice eaters.

Mr. ALIOTO. It shows the interest of the rice consumers in California. [Applause.]

The CHAIRMAN. We are very glad to have you here, girls.

The next witness will be Mr. Marshall Leahy, who is executive vice president of the Farmers' Rice Cooperative.

We will be glad to hear you now.

STATEMENT OF MARSHALL E. LEAHY, EXECUTIVE VICE PRESIDENT, AND JAMES J. NICHOLAS, GENERAL MANAGER, FARMERS' RICE COOPERATIVE, SAN FRANCISCO, CALIF.

Mr. LEAHY. Mr. Chairman and members of the committee, I had the privilege of attending yesterday's session. I have filed with the committee a written statement. I do not propose to belabor many of the points which have been given with great detail.

I want to say that I am a member of the U.S. Rice Advisory Committee, as a technical adviser, and can verify many of the things that Mr. Alioto said about the circumstances which led to the introduction of this bill.

I think it goes without saying that the chronology of the thing as he outlined it is correct and that it would only be fair to reiterate the fact that the industry had little or no opportunity to state their position on the bill prior to its introduction and these committee hearings.

There is one point that I think is rather significant, in what Mr. Alioto said about California's unique position, which I should like to mention just by way of amplification, so far as moving most of the crop through cooperatives. We are also a cooperative tax-exempt organization, wholly owned and controlled by the producers, where all of the income after the costs of moving the crop are paid are returned to the growers.

And I think that no one has commented on this point: Why would a cooperative be here in opposition to this bill?

If the statements made by the proponents are correct, this is not going to result in a drop in the farmer's income because a cooperative is primarily interested in returning an amount of money to its members. That is its function and its purpose. I think that I want to comment on that point.

I am assuming—and we do not concede this at all—but even assuming that the administration's position is correct on this bill and that this bill is so designed that the cost of it will not be a burden on the producer but will be shifted to the consumer—and I certainly am not in agreement with that—our reason, from our standpoint, for opposing this bill is the fact that while that academically has some justification, depending upon how you manipulate figures, I think that in the long run that any cooperative organization would be doing a disservice to their members to support any program that might temporarily not affect the farmers as far as the support and that type of thing is concerned if it would result in something that would impede or obstruct the movement of their crop, because it is only a matter of time when the crop will start to back up and we will have surpluses and we will be back here before the Congress trying to justify acreages and support. This has been the history of all crops.

So, really, the evil of this bill is not so much the point that it is doing a direct and immediate injustice—and I use that word, if I may—to the producer—I think the real reason is the fact of what it will ultimately result in. I think it has been said too many times that it does not require repetition, that the consumer will not pay this bill. The Government cooperatives cannot. Let us use that as a good example. We are really a combination of producers. And we must move the crop. If we do not move the crop we would move it over to the Government and we would take our supports. We are all eligible for that.

Now, if the crop does not move we turn around and we say, "Mr. Government, here is the crop." So now the Government has the crop. And all of these academic figures fall by the wayside, because now they have a new problem—they have a surplus problem with all of the expense. And that has been before the Congress many, many times. Even the Department people admit that a takeover is the most expensive part of the whole farm program. And we have been religiously over the years supporting the various methods of avoiding takeovers.

We did not have the payment-in-kind program for a long time. That program was a product of the thinking of the industry and of the Government as a means to avoid a takeover. The theory being that by advancing the money in subsidy you take the rice in hand in the hands of the people before the takeover, and before you get into this 105 percent of parity and the cost of storage, and so forth, and say, "Here is the money." This enables you to avoid takeover and move it into the export markets.

The \$180 million that Senator Montoya commented about a minute ago is, actually, from Government figures broken down this way, from their own published figures: It is \$125.8 million that represents the Public Law 480 program; \$15.1 million that represents the supports, and \$38.8 million that represents payment in kind that adds up to \$179 million-odd.

What the witnesses have been saying is that the Public Law 480 program being thrown against rice has been unjust in many ways.

First of all, I thought that for a long time we have been coming back here and we have actually sat in at times when the administration has supported a continuance of the Public Law 480 program. And out of that grew the food-for-peace phase.

It is true that the Public Law 480 program by its very text is a surplus disposal program, but I never believed that the food for peace program was necessarily a surplus disposal program.

The CHAIRMAN. But we made it so by law.

Mr. LEAHY. We have made it so by law, yes; but the original concept, when the two operations were separate here in Government, was that this was supposed to be a diplomatic and State Department arm; that we would use the food for peace for needy nations. Now it has found its way into the Public Law 480 program and, apparently, into the same budget, but I think that the Government is going to have to make up its mind on this Public Law 480 program, and I include the food-for-peace program.

It seems to me that in the President's message to the Congress—I do not have the text in front of me—he supported the food-for-peace program. He said that we could amplify it—we could broaden it. And I recall the same statement having been made by the Secretary of Agriculture on several occasions.

The odd part about this thing that Mr. Alioto has stated—and he was correct—is that California has not been involved in the Public Law 480 disposal for the last few years. We have been going in the direction where we are all hopeful of going, moving into the so-called payment-in-kind program for dollars. But an odd example that really is important: Last year there was a small Public Law 480 program in Okinawa. The California industry opposed that. We did not want a Public Law 480 program in a dollar market to be put there at the request of the military to provide some funds under title IV that they had uses for the funds over there for purposes completely unrelated to rice.

The CHAIRMAN. I am not surprised—I am not surprised at that. They try to get it every way that they can.

Senator MONTAYA. How much of a Public Law 480 program on rice did they seek?

Mr. LEAHY. 20,000 tons.

Senator MONTAYA. What does that amount to in dollars?

The CHAIRMAN. In Okinawa.

Mr. LEAHY. In Okinawa. It depends on how you want to price it. What do they pay for their rice?—\$15 million, approximately.

The CHAIRMAN. You say that the military insisted on that?

Mr. LEAHY. Yes.

The CHAIRMAN. I want to look into that.

Mr. LEAHY. As a matter of fact, we were here not so long ago, Mr. Chairman, discussing whether there should be a new program and we met with the military and with the Department and we came back here intending to oppose it again. And they have told us that they are hopeful—they make no promises—that these funds, the portion of them that is generated through the title IV agreement would be used for the benefit of the rice industry by enabling them to erect storage facili-

ties, and they need very badly bulk storage facilities, receiving facilities and that type of thing there. I am simply saying that not all of this \$126 million is a charge to the disposal of rice.

Senator MONTOLA. Let me ask you this question before we go to another subject: What is the normal market for California rice in Okinawa on a dollar basis?

Mr. LEAHY. I think that we sold it there about 60,000 to 65,000 tons this year. This is a payment-in-kind market.

Senator MONTOLA. Is that over and above the Public Law 480?

Mr. LEAHY. Yes.

Senator MONTOLA. But without the Public Law 480—when you did not have Public Law 480 what was your market—did it decline or increase?

Mr. LEAHY. You will have to understand that the Okinawa market has just recently opened up to the commercial trade. It was a market controlled primarily by the military up to a year or so ago. Now it is buying on its own.

Senator MONTOLA. And it amounts to how much in this case?

Mr. LEAHY. We should be able to sell U.S. rice somewhere between 60,000 and 80,000 tons per year. And that is without Public Law 480.

The CHAIRMAN. But they want the Public Law 480 so as to generate funds to do something with them?

Mr. LEAHY. Right.

The CHAIRMAN. For the benefit of the military?

Mr. LEAHY. They had some military uses that they wanted it for, which had nothing to do with the rice.

The CHAIRMAN. That was just a method of obtaining more funds?

Mr. LEAHY. Correct.

Senator MONTOLA. That is correct.

The CHAIRMAN. We want to look into that one.

Mr. LEAHY. I think it has been said very clearly and well by Mr. Alioto that shifting the emphasis from the Public Law 480 program to the p.i.k. program would help. We certainly support that. It makes sense. It is cheaper. There is a need for the Public Law 480 program, because we all have to honestly admit that while California may not participate there are areas of the world that even with the subsidy could not come up with dollars. The p.i.k. program involves dollars plus a subsidy. You still have to have some dollars. So that the Public Law 480 program has a definite and important place in the rice industry and I do not think that we want in any manner to minimize it, but I think that everything should be in its proper perspective when we are being charged with costs such as these, and I think that we have to make up our minds on such things as this, is the food-for-peace program an implement or a method of disposing of rice?

You can talk to the people in the Department and they will tell you that there are more requests under the Public Law 480 program for rice than we can supply. So we are down to this proposal.

If rice is removed out of the Public Law 480 program you are going to find that these areas of the world that depend on rice are not going to accept things that are in surplus here as a substitute. This has been tried and it just will not work and they will not take it. As a matter of fact, it would be an undiplomatic thing to say, "If you want our

money under Public Law 480, you will have to take wheat." And they prefer rice. This has been going on for centuries.

Now, I just want to say that so much has been said ably by so many people that I do not want to burden the committee with the evils of the bill in its technical form. I do want to make this comment, however.

I think it is a very, very unwise thing for the Congress to support any bill that gives such a broad amount of authority to an administrative agent. In this bill the Secretary would have the power—and this is unbelievable—he would have the power to cut this acreage 380,000 acres with one fell swoop. I base that on the fact that the only minimum in the bill is the requirement that when he sets the national allotment for the domestic market he must be at least at 60 million bags. The national average yield was 41 bags to the acre, so that if you multiply it out you would reduce the acreage somewhere below 1,500,000 to 1,080,000, so that we would go down 280,000 acres. That is a discretionary thing in the bill which he has the authority to do.

And, also, for the first time since 1955 we have a complete elimination of the floor on acreage. The floor on the acreage has had a purpose. People in the rice business have made some tremendous expenditures. And while there are no guarantees in life that floor has been there a long time—it was put there at a time, as the Senator will recall, in 1956 and 1957 when we were talking about the old two-price plan.

The CHAIRMAN. Yes.

Mr. LEAHY. And this has been a portion of it. People have spent millions of dollars in the industry in reliance on the fact that this is about where the acreage belongs, and all of a sudden that is removed. The support on the export has dropped down. It is a discretionary authority now that extends under the bill into the export market and he can say, "Zero on export," he can say, "10 percent support." Or he can eliminate it entirely. And he is saying that since the domestic allotment is only somewhere around 35 or 38 percent of the total crop that means that 62 percent of the crop theoretically, if he should so decide, would be completely unsupported.

The CHAIRMAN. And sold at world prices.

Mr. LEAHY. And sold at world prices, yes. It is just unbelievable. You are talking about quite a bit of money. You are talking about an awful lot of people who make their living at this business that that much authority should be vested in one person. I think that the Congress has some obligations. I think they have the obligation to place some minimum. And to place some protection in this to the growers.

I notice that again, going back to the President's message to the Congress—I think it is in there that you will find it—he said that to remove price supports now would be disastrous. That is in his message. So he does not support the views that the support should be eliminated and yet here is a bill that would give the Secretary of Agriculture that much authority for 62 percent of the crop.

I am not trying to state the impact of this thing in the marketplace. Mr. Nicholas has spent his life in marketing and I will let him comment on that. I will say that we are completely opposed to it. We think it is going to be just a matter of a year or so if this bill goes into effect where this rice will back up into the hands of the Government.

And we will have surpluses. And we will be back here trying to defend acreages and avoid further acreage cuts. And the Government, in the long run, will spend more money than it is doing at the present time.

The CHAIRMAN. May I say to you that authority to reduce acreage was in the hands of the Secretary of the Department of Agriculture prior to 1956?

Mr. LEAHY. That is correct.

The CHAIRMAN. I will not say this boastfully, but I was instrumental in fixing the minimum acreage, both for cotton and rice.

Mr. LEAHY. I was here. I commend you for that. I personally saw that.

The CHAIRMAN. And the bargain that was reached by us, shall I say, was that if the acreage was at so many acres minimum for cotton and so many acres minimum for rice, we agreed to lower the minimum price support from 75 to 65 percent, reduce the range from 75 percent to 90 percent down to 65 percent to 90 percent. That really is what happened.

Mr. LEAHY. That is correct.

The CHAIRMAN. I do not know that I am proud of it, but I was instrumental in carrying out that bargain with Mr. Benson when he was Secretary of Agriculture.

Mr. LEAHY. You certainly have given some stability to the rice industry as a result of that.

The CHAIRMAN. All right. We thank you.

(The prepared statement of Marshall E. Leahy follows:)

Mr. Chairman and members of the Senate Agricultural Committee, Farmers' Rice Cooperative is a producer-owned organization engaged in the production, drying, storage, milling, sale, and distribution of rice. It has a membership of over 600 California ricegrowers and owns substantial facilities for the drying, storage, and milling of rice located at various points in California and in Puerto Rico. Its members produce, and the cooperative controls between 25 and 30 percent of all rice produced in California, all of which is sold in the domestic and export markets. I am appearing today on behalf of this organization in opposition to the provisions of title III, Senate bill 1702. We are opposed to the bill not only because we believe that it is unjust, but also because of our conviction that it is basically unsound. Before addressing myself to the specific provisions of the bill, I would like to acquaint the committee with some background on rice in California.

California grows what is known as a short or medium grain rice as distinguished from rice of the long grain variety which many of you are accustomed to seeing in your own homes. The climate in California does not lend itself to the growing of long grain rice. As a result, the California rice farmer has been confined to the production of the short grain rice, described as the Japan-type rice. Sixty to seventy percent of the rice produced in California is shipped offshore, and the balance of it is sold in the continental United States to puffers, brewers, industrial users, and in areas of the country such as New York and Los Angeles where there is an unusual accumulation of persons of either Puerto Rican or Oriental ancestry. However, the fact that such a large portion of California production moves offshore does not classify it as export rice, since most of the rice is transported to Hawaii and Puerto Rico, neither of which are treated as export markets. Some of our rice is sold in export to countries which prefer the short grain rice, notably, Japan, Okinawa, Guam, and the Common Market, West Germany. It is important for the committee to keep in mind that California is unique in that huge amounts of its production is sold to the heavy rice-consuming areas of Puerto Rico and Hawaii. In those two places rice is the most important item in the daily diet, as evidenced by the fact that the annual per capita consumption in Puerto Rico is approximately 135 pounds per person, as opposed to approximately 7 pounds per capita in the United States.

Hawaii also possesses a much higher per capita consumption than in the rest of the United States.

These figures should demonstrate that any legislation which would force an increase in the price of rice in Puerto Rico or Hawaii would not only seriously affect the cost of living there, but would obviously injure the California growers as the suppliers of this rice. Over 3 million bags of milled rice are consumed annually in Puerto Rico, and about 600,000 or 700,000 bags in Hawaii, substantially all of which is supplied by California. Since it takes approximately 2 pounds of rough rice, or paddy rice, to produce 1 pound of milled rice, we are talking about those two areas absorbing approximately 8 million bags of all rice produced in California each year. This represents about 60 percent of the entire California crop.

It is admitted by the proponents of this bill that the success of this marketing certificate program is based on the premise that the cost of the program can be shifted from Government to the consumer. The proponents have released figures to the industry stating that if this bill is enacted, the Government will save approximately \$50 to \$60 million, and that such amount will be shifted to the consumer. Arguments appealing to the producer to support the bill state that this bill will not reduce income to the farmer, and that it will lower cost to the Government by having the consumer pay the bill through increased prices in the market. Government economists have stated that the cost of rice in the marketplace will be increased 4 to 6 cents a pound. Using their own figures, this means that rice currently selling at \$10 to \$10.50 per 100 pounds in Puerto Rico will cost the consumer about \$15 or \$16 a bag.

To contend that such an increase can be absorbed in the low-income areas of Puerto Rico and Hawaii is completely unrealistic. Government statistics admit that rice is consumed in large quantities in the low-income groups. Increases of approximately 5 cents a pound to low-income groups consuming huge quantities of rice in their daily diet imposes upon those who can least afford it the entire burden of this whole program. There is no question in my mind that these markets will not and cannot absorb such increases. If such is so, the natural result will be that the California processors will not be able to move rice into normal channels; this rice will start to back up and finally it will be turned over to the Government under the support program. We have spent years in this industry attempting to devise a program that would reduce Government takeover and avoid Government surpluses. Through the excellent cooperation between the rice industry and the Government the last few years have seen the elimination of all rice in Government hands so that at this moment there is no surplus of rice in the United States. Admittedly this has been accomplished in part through the payment-in-kind and the Public Law 480 programs, but much of the success in rice is attributable to the efforts of the rice industry itself in devising more efficient methods of competing with rice of other exporting countries.

The California industry alone has spent millions of dollars in developing the Puerto Rico market and has been the pioneer in devising a bulk marine movement of semimilled rice in special vessels and in constructing bulk shipping and receiving facilities in California and in Puerto Rico. Expensive rice mills have been built in Puerto Rico thereby enabling us to process and distribute rice to the consumer at a level far more economic than that of its competitors. Millions of additional dollars have been expended by the California industry in the establishment of brands and creating a consumer acceptance of those brands. If this bill is enacted and the processor is required to increase its price 4 to 6 cents per pound, there can be little doubt that Puerto Rico and Hawaii will look to other suppliers or to substitute products, resulting in tremendous loss to the California rice grower.

This bill has other bad features. For example, it vests in the Secretary of Agriculture vast amounts of discretionary power:

(a) The Secretary may fix the support figure in the domestic market at a rate anywhere between 65 and 100 percent of parity. The proponents of the bill make the statement that it is the present intention of the Secretary to support the domestic market at 90 to 100 percent of parity, but even assuming such is correct, such is not binding and is no indication of any permanent position. One must admit that the bill does permit the Secretary to fix the rate in support in the so-called domestic market at a figure as low as 65 percent of parity.

(b) The bill provides for no minimum support rate in the export market and authorizes the Secretary either to deny support in export or to fix the rate of support at a ridiculously low rate.

(c) There is no minimum acreage allotment provided in the bill, and the present minimum acreage protection under existing legislation of 1,652,596 acres, is completely eliminated.

(d) The bill permits the Secretary to determine the national acreage allotment for rice based on his determination of the projected national yield. The only protection that would prevent the Secretary from reducing acreage to any level he chose is a provision in the bill that this acreage determination must be in an amount that would produce not less than 60 million hundredweight. The national average production for rice last year was 41 bags an acre. Accordingly, if the Secretary should decide that the acreage allotment should be only the amount of acreage required to produce 60 million bags, he could fix the national allotment at 1,500,000 acres. Such action would reduce the existing rice acreage by 380,000 acres and would be catastrophic. Such a cut would even be below the present minimum acreage of 1,652,596 acres fixed by existing legislation. Granting such broad authority to the Secretary would seem to be completely unwarranted.

(e) Approximately 14 percent of all milled rice is sold as brewers rice to breweries. Such market is most important to rice millers since if there were no brewer customers, such rice would have to be sold as feed. Brewers rice is a luxury item and is used only in the premium beers. Any attempt to impose a 4- to 6-cent-per-pound increase in the price of brewers rice would certainly result in a discontinuance in the use of brewers rice in favor of cheaper substitute products such as corn grits. This forecast can be readily verified by the brewery representatives. I am sure their position supporting this view will be made known directly to this committee. Suffice it to say, that if the rice industry loses its outlet for brewers rice it will cause a terrific financial loss to the rice producer.

(f) Considerable quantities of rice are purchased by manufacturers for reprocessing to produce breakfast foods, cereals and other food items. An increase in price of 4 to 6 cents a pound to such national manufacturing firms, such as Kellogg's Quaker Oats, General Foods, Ralston Purina, and others, would find them quickly turning to substitute grains, resulting in a loss of this important outlet. To argue that rice cereals and similar food items can be sold successfully at prices 4 to 6 cents a pound higher than competitive products, is completely ridiculous.

(g) As previously mentioned, the California rice industry moves consistently 60 percent of its rice in the domestic market which includes Puerto Rico and Hawaii. Government officials have indicated that in their opinion the domestic allotment would be about 40 percent of the total crop and that this amount would be apportioned among rice producers on the basis of their average yield over a period of years. Such method of apportioning the domestic market allotment works an obvious injustice on the California grower since he will receive only his proportionate share of the national domestic allotment amounting to 40 percent of his production. A California producer will be losing one-third of his proper share in the domestic market to growers in other areas who in the past have produced rice primarily for export or for Public Law 480 disposal, with little regard for domestic sales. If there is to be a certificate program, it would be only proper to apportion the domestic allotment bearing a high support on the average amount of rice sold in the domestic market by each State and then divide the State allocation among the growers of that State.

(h) The bill also provides a premium in marketing certificates for the small grower. On the first 500 bags of production the grower is to receive certificates up to 55 percent of the national domestic allocation, and on production from 500 to 1,500 bags, he is to receive certificates to the extent of 45 percent of his production, even though the national acreage allotment be less than those percentages. The bill further provides that the cost of these additional certificates issued to small producers shall be financed by the Commodity Credit Corporation. In testimony before the House on the companion bill, Government officials stated that these additional certificates would be in the nature of "dividends" to the small producer. Giving a premium to the small producer, as opposed to the average producer, does not appear justified or logical. In addition, such can only reduce the estimated saving in cost to the Government. Certainly any

producer with such a small amount of production is an uneconomic grower and surely production of such size should not be encouraged.

(i) The bill is to apply to the 1966 and 1967 crops. If experience is any criteria it is safe to predict that after 1967, rice producers will again be before the Congress seeking to avoid either an extension of this bill or some new disrupting program. In the meantime, rice producers will have been stripped of their minimum acreage floor and the minimum floor on price support presently in effect. This bill completely erases all of the safeguards of the rice farmer. Rice producers have invested vast sums of money for land and equipment in the belief that they would always enjoy relative stability in the Government programs. It is argued that rice is a costly crop to the Government. What is overlooked is that rice is probably the most expensive crop to produce due to the introduction of modern techniques requiring expensive land and equipment, as well as huge drying and storage facilities. Such substantial investment by rice producers have made American producers more efficient and have enabled the industry to retain its position in the world market, despite distortions in labor and material costs.

(j) The object of this bill is to force an increase in the price to consumers, thereby lowering the cost of the rice program to the Government. Since the largest consumers of rice are people in low-income groups, the net effect is to cause these people of limited means to bear the cost of the whole program. Such objective is completely at odds with the Government's present efforts under the antipoverty program. If rice were a luxury food consumed primarily by high-income groups, perhaps one could find some justification for the philosophy of this plan. However, rice is a staple product used primarily by the poor and working classes, and severe price increases will have a direct and adverse effect on the living costs of those who can least afford it.

The rice industry has at all times been ready and willing to meet with Government officials in an effort to devise a program that would meet the objectives of the Government, and at the same time be acceptable to the producers. No such opportunity has been afforded, despite the fact that industry representatives have on several occasions requested such a meeting. This bill is the product of Government, and industry has had no opportunity to express its position on any of its provisions. Accordingly, I urge that this committee eliminate title III from the bill, and request appropriate Government officials to initiate discussions with the rice industry to the end that a mutually acceptable program can be adopted. I am certain that all segments of the rice industry will energetically assist in such work.

I thank you for the opportunity to appear before this committee.

The CHAIRMAN. We will hear from you now, Mr. Nicholas.

Mr. NICHOLAS. Mr. Chairman and members of the committee, my name is James J. Nicholas and I am general manager of the Farmers' Rice Cooperative and president of the Farmers' Rice Co. of Puerto Rico.

I listened to the testimony all day yesterday. I think that there is very little that I can say. I would like to submit my prepared statement for the record and to comment on one or two things.

The CHAIRMAN. That will be very fine. We will make it a part of the record at the conclusion of your remarks.

Mr. NICHOLAS. I would like to say that I concur heartily in the statements made yesterday by Senator Inouye and Senator Fong and the gentleman from Puerto Rico.

California's market is primarily Puerto Rico. It is virtually impossible for the consumer to accept an increase of 4 to 6 cents. That cannot be absorbed by the consumer in Puerto Rico or in Honolulu. It just appears to me that if this bill is promulgated we will lose these markets.

I was also impressed yesterday with the presentation made by Mr. Hurley of the Kellogg Co., wherein he pointed out that the manufacturers of cereals and of candy bars would, eventually, be lost to us.

I feel that the brewery business is in the same position. And I know that Mr. Bender and Mr. Rowe are here this morning to testify on that score.

I might say that if we lose this market it means that there will be approximately 5 to 6 million bags of rice turned back into the domestic market which, in my opinion, has no place to go, except into possible export markets or into Government support which is certainly costly.

For these reasons, then, sir, I would like to urge the defeat of this bill as quickly as possible.

The CHAIRMAN. Thank you.

Mr. NICHOLAS. Thank you.

(The prepared statement of James J. Nicholas follows:)

Mr. Chairman and members of the Senate Agricultural Committee, my name is James J. Nicholas and I am general manager of Farmers' Rice Cooperative whose principal offices are located in San Francisco, Calif. but which owns and operates dryers, warehouses, and mills throughout California and in San Juan, P.R. I do not propose to burden the committee with a restatement of the same remarks made by Marshall Leahy, our executive vice president. Suffice it to say, I am fully in accord with points he made in his presentation. I thought perhaps I should emphasize, however the impact that a program of this kind would have on the marketing side of the rice industry. I have spent most of my life in the rice business, chiefly in the marketing end, and during that period I have had personal experience in moving rice under a variety of Government programs, rules, and regulations. There have been times over the years, when policies affecting rice were adopted that had an immediate adverse effect in the market. Such has occurred frequently enough for me to predict that any program designed to artificially increase the price of rice will create chaos in rice marketing.

Under the existing legislation the rice industry has been enjoying a prosperity that is unprecedented. The present payment-in-kind program and the assistance of the Public Law 480 program, coupled with our existing acreage control and marketing quota system has proven to be an excellent arrangement for the handling of the rice for the producer, the processor, and the consumer. In California, as a result of these programs, the rice industry has not delivered under support a bag of rice in the last several years. If my recollection is correct, I believe 1962 was the last year when any rice was delivered under support in California.

I would hate to see any program adopted that would scrap much of the work that has been done over the years in reaching this plateau. There is no doubt in my mind that if title III is enacted and the mills are required to increase the price of rice from 0.04 to 0.06 cents per pound, the industry is going to dry up and surpluses will unquestionably result. If such occurs, the Congress will be faced with the problem of either cutting acreages or in some manner finding a method of disposing of the surplus crop. All of the committee, I am sure, are aware of the expense involved whenever Government is forced to take over crops and pay the costs of storage, transportation, and distribution. Comparing that expense to the expense that is involved in the payment-in-kind program which enables the rice industry to sell rice competitively in the world market, would seem to be far less costly than the expense involved in any surplus take-over. If such results through this program reduced acreages will follow. Cutting acreages would cripple the industry because it is now geared to handle the present production and has the facilities, land, and equipment to do so. If acreages were cut because of this program, I am certain that Congress will have an aroused rice farmer on their hands.

The minimum acreage allotment under existing legislation permits acreage allotments of not less than 1,652,596 acres. At the present time, however, due to a 10-percent increase a few years ago, the present acreage is fixed at 1,818,166. This increase was justified on the ground that rice was a most important part of the food-for-peace program and that was as essential in foreign aid as some of our military weapons in providing better relations with many of the small nations in southeast Asia.

In the areas of the world where this country is presently undergoing severe military engagements, rice is the predominant consideration. Not only as a

motivation for the Communist nations who seek control of the rice bowl of the world, but equally for the United States in trying to protect the rice bowl in order to assist in the feeding of the distressed areas of the world. I am most fearful that if this bill is enacted it will hasten acreage cuts that will be justified by the Congress on the ground that the present acreage has created a new rice surplus. Unfortunately, such rice surplus will be the result of the very legislation which the Congress itself will have enacted. I would not want to question the motivations of the administration in its belief that the rice industry can successfully increase the price of rice substantially in the domestic market without affecting its sales volume, but I do question the judgment that leads to this conclusion.

I have personally been involved for many years in marketing rice in the historic markets, such as Puerto Rico and Hawaii, and based upon my experience, I unqualifiedly predict that any attempt to increase rice 4 or 6 cents a pound will result in the loss of all or substantially all of these markets. Statements have been made by Government economists to the effect that this increase to the consumer only amounts to 35 cents per capita per year. Such is a misleading statement and since it is applicable only in areas of the United States that do not eat rice regularly or at all. This argument is simply an attempt to minimize the true impact on families that depend upon rice for their daily diet. To such families an increase of 4 to 6 cents per pound is the equivalent of an increase of 50 percent of the present cost of rice in the marketplace.

This bill differs completely from the two-price system which the rice industry itself fostered around 1957 or 1958. The concept then was that in order to preserve acreages and avoid further acreage cuts, it would be possible to have rice supported at 90 percent of parity in the domestic market and 50 percent in the export market with the producer to receive a blended support for his production. At that time the industry was talking in terms of 60 percent of the crop being supported at 90 percent of parity and the balance at 50 percent of parity. The difference between the two programs is that in the former bill the producer was going to absorb some of the cost of the program by being satisfied with a blended support rather than a higher support on less acreage. There was no requirement for marketing certificates in the old program as in the present bill. Under the present bill, the producer at least at the beginning of the program is not to be reduced in income and at the same time the Government is relieved of considerable expense. A tax is put upon the processor however by requiring him to buy a marketing certificate when he purchases the rice from the producer. The proceeds of those certificates purchased by the processor are to be used to reimburse the Government for the moneys previously paid to the producer. It is axiomatic that under this arrangement, the processor must recoup the expense of those certificates from the consumer. That is the announced intention of the bill according to its proponents. Therein lies the difference between the two programs.

Under the old bill there was a joint participation by the producer and the processor in the expense of the bill. The grower, under that arrangement, was taking some of the risks and was a joint venturer with the processor. Under the present marketing certificate plan there is no speculation by the producer, but the burden is placed on the processor and he is arbitrarily required to pay a fixed sum for his certificate without knowing whether he will ever be able to recapture it in the marketplace. This is a bad plan and will, in my judgment, be disastrous to the processor immediately and to the grower ultimately.

In California, with 85 percent of the production controlled by cooperatives organizations, the only alternative will be to deliver the rice to the Government under the support program should we be unable to recapture our marketing certificates expense in the marketplace. In areas of the country where rice is not controlled by cooperatives, the movement of rice to the mills from producer hands will undoubtedly be slowed down because of the hesitancy of the commercial miller to purchase the rice knowing that he must then purchase a marketing certificate at a figure of \$2.90 a bag without assurance that he will be able to recapture that cost in the marketplace.

I urge this committee to seriously consider these facts and I feel reasonably confident that upon reflection the committee will be satisfied that title III should be eliminated from the bill.

I thank you for the courtesy you have extended me in allowing me to appear before this committee.

The CHAIRMAN. We will next hear from Mr. Winston Atteberry. You may proceed.

**STATEMENT OF WINSTON ATTEBERRY, SECRETARY-TREASURER,
LOUISIANA RICE GROWERS, INC., CROWLEY, LA.**

Mr. ATTEBERRY. Senator Allen J. Ellender, chairman, and associate members of the Senate Committee on Agriculture and Forestry, my name is Winston Atteberry of Eunice, La.

I am a rice farmer. I became actively engaged in the growing of rice in 1929. My family has been engaged in the production of rice since 1902.

I am secretary and treasurer of Louisiana Rice Growers, Inc., a cooperative milling and marketing organization. I am president of the Crowley Rice Drier Cooperative, Inc., a farmers' drying and storage elevator in Crowley, La., and I am vice president of the Rice Council for Market Development, an organization composed of and supported by rice farmers, rice millers, canal companies, warehouse and elevator companies, and others related to and participating in the production and marketing of rice.

I respectfully wish to express my opposition to enacting into law those legislative proposals contained in title III of Senate bill 1702.

My opposition is based on the fact that the present production levels of rice in the United States are the results of cooperative efforts of the American rice farmer and the U.S. Department of Agriculture, in response to Government request for greater supplies of rice needed for conducting World War II, reconstruction of war-torn countries after World War II, the Korean war, and for the various foreign aid programs since the end of the Korean war. The reasons offered by the sponsors of this bill for its enactment, is to save the Government \$181 million, which is the reported cost of the rice program.

Accountants estimate that 40 million hundredweight of rice is used in the Government programs for feeding the hungry people of our friendly nations, under Public Law 480, and the food-for-peace program and the p.i.k. It is my opinion that the value of this program should be reappraised. It could be that its value in prestige abroad will be found to be worth the price.

Domestic consumption of rice is estimated to be 35 million hundredweight. Those who use rice domestically are:

- (1) The cereal manufacturer;
- (2) The soup manufacturer;
- (3) The brewers;
- (4) Food packers, precooked, and specially prepared rice packaged and distributed throughout the Nation; and
- (5) Wholesale and retail distributors of rice throughout the Nation, but particularly in the States of Texas, Louisiana, Mississippi, Alabama, Florida, Georgia, North and South Carolina, and in the areas of New York populated heavily by the Negro and the Puerto Rican citizens.

Title III of S. 1702 provides for a certificate plan to finance the program under this law. The certificate is to be paid for by adding as much as 5 cents per pound to the price of rice sold domestically. The sponsors of this bill calculate that the average consumption of rice per capita is 7.2 pounds, and, therefore, the annual cost would only be 36 cents per person. This, however, is not a true representation of fact. More than 50 percent of the rice consumed domestically is bought by

people who eat as much as 100 pounds and over annually. They are among the working class of people who like good food, but do not have much money to pay for it. Is it fair to hang the expense of our foreign aid on these people? According to news releases, President Johnson just recently signed a bill canceling the excise tax on luxuries. I do not think the Members of Congress would act wisely or with prudence, should they enact both of these bills in the same session of Congress. I do not think that would be prudent or wise.

The cereal manufacturers, the soup manufacturers, the brewers, and the precooked food packers, have already testified on their behalf concerning the effect the enactment of this law would have on the distribution of rice domestically as it pertains to their product.

The Rice Council for Market Development is doing a magnificent job in promoting a market for rice here at home, and in foreign dollar markets. The whole rice industry of America is cooperating, so is the U.S. Department of Agriculture. Consumption of rice has increased at a rate accurately estimated to be 5 percent annually. With such progress being made, I see no great problems of surplus in rice that cannot be handled within the framework of the present law.

President Johnson stated in his agriculture message to Congress on February 4, 1965, and I quote:

Rural America is the scene of one of the greatest productive triumphs in the history of man.

This is a tribute to the farmer. I am sure when he said this he included the rice farmer. Continuing, he also said:

Over the past 4 years, our commodity programs have raised and sustained net farm income at an annual level of nearly \$1 billion above 1960. Few activities so dramatically indicate the value to farmers of good programs, well administered * * *.

This is a tribute to Congress, the U.S. Department of Agriculture, and those program committees who worked out the program.

I agree with the President. Let us have good programs, such that can be well administered. The passage of title III of Senate bill 1702 would launch the rich industry in America on a reckless experiment, which could bog down entirely and throw the whole rice industry into desperation by pricing rice out of the domestic market.

Thank you for your attention.

The CHAIRMAN. Thank you.

Senator MONTROYA. What would you estimate to be the net return per acre on rice production?

Mr. ATTEBERRY. You mean gross?

Senator MONTROYA. From your experience.

Mr. ATTEBERRY. The net profit?

Senator MONTROYA. Yes.

Mr. ATTEBERRY. In farming rice?

Senator MONTROYA. Yes.

What would be the average in Louisiana?

Mr. ATTEBERRY. That was presented in very detailed form yesterday by Mr. Wittler, and he calculated it to be \$6.

The CHAIRMAN. \$6.80 per acre.

Senator MONTROYA. Thank you.

Mr. ATTEBERRY. That holds true for the rice industry.

The CHAIRMAN. With nothing for management, just the actual cost. That statement was put in the record yesterday.

Thank you very much.

We will hear from you now, Mr. Aguillard.

**STATEMENT OF HARRY P. AGUILLARD, LOUISIANA RICE GROWERS,
BASILE, LA.**

Mr. AGUILLARD. Senator Ellender and members of the Senate Committee of Agriculture and Forestry, if you do not mind, I will stand up. I am nervous about testifying, that is the reason. It will not take me long, but it will take me a little while to get over the nervousness, following these people who are making these recommendations to Congress. I understand that a little knowledge is a dangerous thing, and I do not want to mess with something that is dangerous. I have a great fear of saying something wrong, and yet feel obliged to bring my knowledge of my community to add to your knowledge of the whole country, so that we will not be overlooked.

I think that these leaders here have a place, but they cannot lead unless they have someone to lead. And if it goes the way that it is going now, there will not be enough people left to lead.

I cannot offer you any specifics or any way to change this legislation.

My name is Harry Aguillard. I am president of the Basile Rice Cooperative Drier, Basile, La. and director of Louisiana Rice Growers, Crowley, La.

The people in my community and in my area have asked me to come here. I did not want to come here.

The CHAIRMAN. Why?

Mr. AGUILLARD. I will tell you why. It is kind of like this man who was walking into the woods with his son and his son told him, "Daddy, I saw a big bear about this big [indicating]."

And his daddy walked on and said, "Son, you know that when we cross the river over there, that bridge has a drop gate in it and those who tell lies, they will fall through that gate when they go over the bridge."

And as they got closer the bear began to get smaller, and when they got there, he said, "Daddy, I did not even see a bear."

I thought that I was going to be able to say this, and I am so scared that I do not know that I can tell you what I have got. [Laughter.]

First of all, I am not going to try to conceal my ignorance, because I have already shown it to you.

The CHAIRMAN. You made a bad job, if you think that. You have shown a lot of sense.

Mr. AGUILLARD. At home in the things that I have to do I think that without patting myself on the back that I can do my job. We have organized a few things. They have helped along. And that is on the farm. I have been on the farm all of my life. And my daddy before me was. The irrigation well on this farm was put down in 1912. Prior to that the farmers in this area depended on small lakes and the hope for rain for irrigation purposes. That is, to irrigate the rice. And the yield was very low, but because of the know-how that you have given us through the Federal Government and the State

government in our extension departments and our experiment stations, we have done what the economists used to tell us could be done—that a good farmer could grow two blades of grass where one grew before. We did better, growing three times the rice that we did at the time that I am talking about. But we find today that is not enough, because, as these people from California have so ably presented to you, these complicated programs have to be dealt with. We cannot do that as farmers back around at home. But with the technical know-how that we have we, as farmers—I am talking about all of the farmers—did a job that seemed to be impossible.

By comparison, during the last 40 years, the Russian farmers have tried very hard to put up programs, and they did what you are trying to do, through their government, and they failed miserably to produce enough food for them to eat.

We have with your plants and your organizations and soil conservation programs, and so forth, we have followed them with determination and our will to work and we brought the problem to you here today. It is the problem, not of a shortage of food, but that we have too much. And I do not think that you really know what to do with the problem that we have created as a team. We could not have done it without you. I do not think that you could do it without us.

Russia has 40 percent of its working people on the farm. We have done this here with about 7 percent of our working people on the farms. And by that I think that we have become the toughest team in the world to beat, the U.S. farmers and the U.S. Government.

I think that if we look at Russia from what we read in the newspapers and that is all that I know that there are a lot of their leaders who have a question in their mind as to who is the most powerful nation in the world, the United States or Russia. There is that question. But let us turn that food and fiber situation over. Let us let them have all of the food and fiber that we have, and take the little bit they have. Do you think that there would be a question in anybody's mind as to who is the strongest? By that I am trying to say that we are the strongest nation not only because of the food and fiber that is produced here, but because without that we would be the weakest nation.

During this last World War II I think that without exception we were the only country that could feed our own country and still have enough food left to send to our allies. I think that if Russia had what we have today in food and fiber they would not be pussyfooting around like they are doing—they would carry that stick so big that I do not think that we could live with it.

We will come back to our little people, that is, us. We need capable leaders. We need these wealthy men who can do these things for us, but these wealthy men and these capable leaders have to have someone to lead who has a backbone and who is willing to go out and work when the odds are against him and to work hard enough to succeed without having an outstretched hand for something to be handed to him free. And that includes the majority of the people in the United States, which is the middle class. And the farmer is a part of that middle class.

We are not worried about the very rich. And we are not worried about the very poor. The very rich are going to take care of them-

selves. And the very poor, the Government is taking care of them right now. And if we do not watch out we, as marginal farmers, will become that.

By the way, I am a tenant farmer. I am a landlord. And I also have a farm that I rent out. It is not big all the way around, but I can see the three factors in the farmer situation, because I am part of it. I do not know much about what you all do here, but I know a little bit about farming. And if you have some questions, why I will answer them. But if these marginal farmers are forced to go out, you will have more poverty. They have become complacent even as to what these leaders do. They will have all of the money.

And we will have a two-class system like you have in some countries, the very rich and the very poor. And there is no country on the face of the earth that is ever going to be successful and prosper and be healthy with just two classes. You have to have that middle class. And there are not many of us left. They are slowly pushing us down.

Sometimes you cannot see that forest for the trees. I am not trying to tell the people here what they ought to do, but they cannot forget us, because if they do, when the time comes it will be too late for them to make right.

With your permission I would like to give you an example of that.

In my parish where I live, Evangeline Parish, I am afraid of this. We have more people on the welfare rolls in Evangeline Parish, I think, than any other parish in the State of Louisiana. And if I am incorrect, you may correct me. To give you an example. Last year we were combining rice. And when we combine rice—and if you have rice to combine today, I go and help you, so that we get the combines together. That day we had four combines in my fields. I had two combines with me. And it was on a Friday. These people, as I say, with their hands stretched out, they had to go sign up for their unemployment compensation at Eunice, 10 miles from home. They got off the combines, off the carts. But some of those that were on the combines stayed there, we ran without the hoppers until they got back.

That is going on a lot now.

What I am trying to say is that we do not want that kind. We want to work. We have got to work. And if this program gets to the point where we cannot make a living at it, the people lose their self-pride—and just like in my case, I have pride, but if I get down to where I lose my pride, I will be ashamed and I will be willing to take the welfare check. We cannot afford to let that kind of thing come to us.

We have a program. There are some people who think that the world just started in 1960. I do not say this with any reflection on some of the people up there, but this program is not brand new that we have now. It is good. But it is not good enough. You do not like it and we do not like it. We would like to make it better. Now they want to get something new that will work this same old thing that you put in a long time ago. We have produced more food than we know what to do with. But now it is out of date. They have to present something that will give something to everybody for nothing. That is not a good thing.

On the farms in Louisiana most of the farmers have to give 40 to 45 percent of their gross sales as rent for the land and for their water. That is standard. You can check all of the records and you will find that it works about like that. More of the farmers are tenants, and I will tell you why they are tenants. In order for you to earn enough land and to earn your own irrigation well, by the time you have done that, you are so old that you cannot farm. That is a fact. You take Mr. Atterberry. He is not farming himself, any more. He is still working on the farm, but he is not doing the full thing, because he is getting up there. He will not like this. But if I accumulate enough to earn my own land and water I will not get out there with a shovel and stay on the tractor like I do now every day. That is why it makes us more modern in farming.

And the man who is receiving the rent, the landlord, he is not getting rich at it either, because I know, because I am on both sides of that fence.

If we come into this complacent position as farmers, our production will be lowered to the level of that of Russia, China, India, and the other countries. And we know that they have no incentive to work. All they want to do is to have a place to sleep and a little bit to eat.

Our program today is not satisfactory to you and it is not satisfactory to us. We would like to have a better program, but I have no suggestion as to what kind of program you should have, but if you keep doing as good as you have in the past in remodernizing it a little bit, do not change it altogether, but now, then, some of these people will say that you cannot make it, that the American farmers are quitting. We will not quit.

The factors that created this great country of ours was a faith in God, a faith in ourselves, hard work, thrift, self-denial, willingness to take great risks in things that we believe. There are not many people left like that—do you know that—not where I live. And we have got to keep the few that are left on that same order. And I believe that we have more of the homely virtues on which this Nation was founded than any other segment of our society. You might take issue with me, but I believe that.

The CHAIRMAN. I do not.

Mr. AGUILLARD. We do not want to quit. We have some farmers going out every year, frankly. In Evangeline Parish I served on the ASCS committee when this new control committee came on in 1955. It made you want to cry, because some of the things that we had to do. We came in with this minimum acreage, five acres, where a farmer had five or six kids. We had no choice. You had no choice. That is the way it worked out. We have at least a third of our small farmers, what we call the highland farmers, the row-crop farmers, who are out. What is happening with some of these giveaway programs is that the small farmer is going out, and the middle-sized farmer like me is getting smaller, and we are going out, too. And you still produce. But with these big farms, you wonder where you are going to get the labor when everybody is getting this stuff free. They will not work when they hardly like to work now.

In addition to this we have been criticized a lot by our city cousins. For a long time they felt sorry for the farmer who was out starving to death. And then with the radio and the television they started to

say how all of this subsidy was coming to us. They think that we are getting the \$180 million. You know that we are not. We know that we are not. I have never turned over one bale of rice to the Commodity Credit Corporation in my life. But they believe that. They believe it because that is the publicity that we get.

Let us assume that we would be getting that figure. Let us look at this seriously. All of these highways and roads that are being built that belong to us, these ignorant country farmers. We have to give up our roads and our rights-of-way. They came across my farm with a 26-inch line. They offered me \$10 a rod to go across 160 acres that had just been land-leveled and resurveyed.

The CHAIRMAN. To put the pipes in it?

Mr. AGUILLARD. Yes. That is one of the things that they can do. Let me see. This man told me at my house when I told him that I could not do it for that \$10, he said, "I did not come here to bargain with you. We could expropriate your farm." That made me mad and I said, "You get out of here."

That is the kind of thing we have got to live with. That pipeline is for the city people; that is, our city cousins who criticize us.

We cannot build a house on that pipeline. We cannot build a corral. They tell us how we are going to do it. I mean that is the kind of stuff that is going on.

We are not hunting for some handouts. We just want a real chance to keep on earning a living and we will try to be part of the backbone of this Nation.

I had something else to say, but I have said so much already that I will not mention it.

We have a rice cooperative. It is 15 years old. I was instrumental in organizing it. Every farmer in it borrowed the money to put up his share of the money for it. And we borrowed the rest of it from the Bank of Cooperatives. We had no other way to raise the money. But because of the program that you put up, that is why I was there. We did this in 1950 and this other was not set up until 1960. They are good programs. We put it up at a cost of \$242,000 for the drier. That is a lot of money. We kept improving it. We have \$655,000 in it now. We dry 207 barrels of rice a year. We take care of the rice. We get the market price for the rice. The rice quality is there and we get it at the right time.

And this rice place that Mr. Atteberry was talking about is 15 years old. He started the same year. And I am a part of that thing.

They talk about the middleman making too much money. They should come to us and I will tell them how.

So what I would say here is, I think for every problem under the sun there is a solution, or there is none. If there is one, try and find it. If there is none, never mind it.

I do not have a solution for all of these problems, but I have one thing here that on February 4, 1965, the President made a speech and in that speech he said:

The food-for-peace program is a good international policy and is sound economic policy. Food is a powerful weapon for peace. People who are hungry are weak allies of freedom. Men with empty stomachs do not reason together.

So, undoubtedly, he agrees that food and fiber are very necessary for the security of our country. And if he agrees with that, I believe we believe it. And I will agree with him on that.

As to the bookkeeping business, I do not know how to bookkeep. I even have to hire someone to do my income tax. But if this \$180 million is being charged to the agricultural program, and the President thinks that sending food out to the other people and using it for national defense is good and by the statistics that you have been given here it has been said that it would cost 70 percent which is charged to the rice program, that is \$126 million and that would leave \$54 million less welfare and educational programs and there is another \$50 million, so that according to their own figures, not my figures, because I do not know anything about figures, that leaves the rice program costing the Government actually \$9 million. So charge this other to international affairs or wherever you want to charge it.

Thank you.

(The prepared statement of Harry Aguillard follows:)

Senator Ellender and members of the Senate Committee on Agriculture and Forestry, my name is Harry Aguillard. I am president of the Basile Rice Co-operative Drier, Basile, La., and director of Louisiana Rice Growers, Crowley, La.

First, I am a rice farmer. My father before me was a rice farmer also.

I assure you I stand before you with great fear, knowing that I cannot furnish you with statistics because they all come from Washington, in the first place, nor can I give you an eloquent speech on preparing legislative bills. I will give you a very fundamental reason why I am opposed to the proposed title III, S. 1702.

I was raised on a rice farm. The irrigation well on this farm was put down in 1912. Before that, well farmers in this area depended on small lakes and the hope of rain for irrigation purposes. The yield of rice per acre was poor. Because of technical knowhow that rice received from State, Federal Extension Service and experiment stations, we now produce three times the rice per acre we did when I was a little boy. Because of this help and our willingness to apply this knowledge, we the farmers of America have done what seemed impossible.

During the last 40 years, the Russian farmer with 45 percent of their population on the farms today and the advice and help of their Government have failed most miserably to produce enough food and fiber to feed their own people. The lack of food and fiber is possibly the Russian's greatest weakness.

We, the American farmers, have taken your advice on soil conservation and production methods, with only 7 percent of our population on the farm today, have confronted our Government with a problem, not of a food shortage, but a surplus, not only a domestic use but a surplus so great that at this time, you are not sure just how to handle it.

Today the American farmer and the American Government is the toughest team in the world to beat. Today the question in many leaders' mind is: Which is the most powerful nation on earth, the United States or Russia? If the food and fiber situation were reversed, giving Russia our food situation, would there be any question in their mind? Believe me, Russia would swing a big stick. Maybe too big for us to live with.

We need capable leadership and we need wise men and wealthy men to guide this Nation, but the leaders must have men to lead that have a backbone and not an outstretched hand for something for free. Men who are willing to work and succeed when the odds are against them. This is the majority of our people, the middle class—the very rich will take care of themselves. The very poor, the Government will care for but we, the middle class, of which the farmers are a part of, must never lose the incentive to work and earn for we may become as those with outstretched hands and complacent.

If complacency overtakes, then danger comes for we will lower our Nation's production level to that of Russia, India, China, etc.

We now have a rice program that we can live with. It is not satisfactory to you nor as good as we should have. We rice farmers who do not own land and water must pay 40 to 45 percent of the gross sale as rent and most of the Louisiana farmers must do just that. We cannot continue to produce rice for less than we are now getting. Some will be quick to say "if you can't make it, quit." The factors that made this country great were faith in God, faith in oneself, hard work, thrift, self-denial, and willingness to take great risks for that

in which we believe. I believe we have more of the homely virtues on which this Nation was founded than any other segment of our society. Therefore you know we will not quit unless forced out. We have the experience, know-how, and desire to farm and our Nation needs our production. We know that if we drop out some other farmers will plant our acreage, but then in a few years, there will be no more middle class only the very rich and very poor. There is no society on the face of the earth than can be a healthful and prosperous with only these two classes.

Our farms are arsenals, not atomic bombs and guns, but food and fiber. The acres of land we have that are not planted to rice, because of soil conservation and proper management is ready for immediate increase of production in case of a national emergency such as war. We could increase our production by at least 50 percent in 1966, if we were called on to do so.

I think our city cousins resent us as farmers today. They think we are getting more subsidy than we are worth. A little serious thinking may cause them to realize that agriculture has supplied the Nation with the world's cheapest diet, in proportion to income. Americans today spend only one-fifth of their income for food, in contrast to the 50 percent spent by the people of most countries. Without this efficiency in agriculture, we would not be the No. 1 nation in the world. Nearly without exception during World War II, we were the only nation who could feed its people and furnish food for its allies. The difference between conquering or being conquered.

We are not asking for handouts. We have a proven past of trying to help ourselves. In 1957, the Rice Council for Market Development was formed and it is voluntarily supported. Rice consumption has increased domestically by 26 percent, of course this increase was not achieved by the Rice Council alone but with the help of all segments.

We have built-in antipoverty program for 5 million people in the rice-producing States by not passing the legislation for rice that is in title III of S. 1702 as well as S. 2111. We can keep our production and pay income taxes.

For every problem under the sun, there is a solution or there is none, if there is one try and find it, if there is none, never mind it.

I do not have a solution for the reduction of Government cost for the rice program, but on February 4, 1965, the President stated, and I quote: "The food-for-peace program is a good international policy and it is sound economic policy. Food is a powerful weapon for peace. People who are hungry are weak allies of freedom. Men with empty stomachs do not reason together."

In view of the above statement by the President and testimonies given, the cost of the rice program is \$180 million. The testimonies state that 70 percent of the Government cost for the rice program relate to Public Law 480. Why not face facts and charge 70 percent of \$180 million which is \$126 million to international affairs, or where it belongs, leaving a cost of \$54 million?

Thank you for your kind attention.

The CHAIRMAN. Thank you very much.

Mr. AGUILLARD. Thank you.

The CHAIRMAN. You four gentlemen are next. You said that you could do it in a few minutes. We will hear you now.

STATEMENT OF CLINTON M. HESTER, WASHINGTON COUNSEL, UNITED STATES BREWERS ASSOCIATION

Mr. HESTER. Mr. Chairman and members of the committee, my name is Clinton M. Hester. I have been Washington counsel for the United States Brewers Association for the past 25 years. My offices are in the Shoreham Building, 15th and H Streets NW.

This is the oldest trade association in continuous operation in the United States, having been founded in 1862. Its members produce 85 percent of the malt beverages manufactured in the United States. The brewing industry is one of the largest industries in this country and generates, in excess tax revenues alone, over a billion dollars for the Federal and State Governments.

Three members of the United States Brewers Association are testifying in opposition to title III of S. 1702. While each witness is testifying for his own company, the views each expresses are the views of the United States Brewers Association.

The United States Brewers Association believes that its members should have a freedom of choice of the ingredients which they use in brewing. It is the consensus of both the users and suppliers of brewers' rice that title III will result in a prohibitive cost of the grades of rice that have been economically suitable for brewing purposes. Consequently, the United States Brewers Association is opposed to the enactment of title III and urges that it be eliminated from the bill.

You will hear testimony from Mr. Richard Bender, vice president, Anheuser-Busch, Inc., St. Louis, Mo.; Mr. William Coors, president, Adolph Coors Co., Golden, Colo.; and Mr. James Rowe, director of purchasing, Jos. Schlitz Brewing Co., Milwaukee, Wis.

We should like to thank you for permitting the representatives of these three members of the United States Brewers Association to present their objections to title III of S. 1702 and for permitting me to testify on behalf of the association.

The CHAIRMAN. Thank you.

You may proceed, Mr. Coors.

STATEMENT OF WILLIAM K. COORS, PRESIDENT, ADOLPH COORS CO., GOLDEN, COLO.

Mr. COORS. Mr. Chairman and members of the committee, I am William K. Coors, president of the Adolph Coors Co., of Golden, Colo., a brewer. My company purchases, annually, 3 percent of the total domestic rice consumption in the United States at a cost in 1965 of \$3,800,000. I am here to present testimony to the effect that title III of the farm bill, as it is presently proposed, will effectively and finally eliminate my company as a user of rice and by so doing will injure its competitive position and jeopardize its very membership in the American free enterprise system.

My company occupies an unusual position in the brewing industry. We find ourselves located in the middle of a population desert. We have 500 miles of virtual desert to the north, east, south, and west of us. Our marketing situation is such that only 10 percent of our output is sold in what would be called the local market. Over 50 percent of our production must be sold a minimum of 1,000 rail-miles away, usually in the very backyard of our competition. To accomplish this, by necessity, we must produce a beer of unusually high quality.

For the committee's edification, I would now like to explain briefly the brewing process. The two essential ingredients in any beer are barley and an additional source of neutral cereal starch. The process involves, first, the enzymation digestion of barley and other cereal starch into sugar and, second, the enzymatic conversion of this sugar into alcohol. The first step involves the enzyme system which controls the natural germination process of barleys, the final step involves the enzymatic system which controls the respiration process of the micro-organism, yeast. The usual ratio of barley to other cereal starch is about 70-30. As with any other product, no beer can be better than the raw materials used in its manufacture. Thus, the major concern

of my company as it has grown throughout the past 30 years since its rebirth in 1933, has been with the development of raw materials of unexcelled quality. For example, we have over the years developed our own exclusive variety of brewing barley. This is grown for us on the high irrigated plateaus of Colorado under contract to some 1,200 farmers. The annual crop is 3,600,000 bushels for which we pay from \$1.70 to \$2 per bushel depending upon quality, a \$7 million annual crop. We germinate or malt this barley ourselves and find ourselves completely dependent upon it to maintain our quality.

Similarly, we have found ourselves to be committed qualitywise to the use of rice as our other source of cereal starch. The alternative, of course, is corn. In recognition of the premium quality of rice over corn, we pay an average price of \$5.50 per hundredweight for rice in face of a present corn cost of about \$3.50. This is a premium cost to us of \$1,200,000 annually. We do this not because we hold any particular loyalty to the rice industry or prejudice to the corn industry, but because in our particular situation we have been unable to brew a beer with corn with sufficient quality to maintain our marketing position.

The Adolph Coors Co. has grown steadily from a humble start in 1873 when the annual capacity was a few thousand barrels of beer. Today, despite a limited marketing area including only 11 of the 50 States and selling to less than 15 percent of this country's population, we rank ninth in our industry with annual sales in 1965 predicted at 3,700,000 barrels. We hold that our remarkable success is entirely due to the consistent excellence of our product and that this excellence is dependent upon the continued use of rice as a cereal adjunct.

Now comes title III of the farm bill. According to information given us by our suppliers, we find that the annual premium we now pay for the privilege of using rice would increase from \$1,200,000 to an absolute minimum of \$3,700,000 under title III. Also, our suppliers tell us that title III would have the effect of forcing a major portion of those rice grades now available to us for brewing purposes to disappear into food rice. Should we continue to use rice rather than corn, the actual premium cost to us would be closer to \$5 million per year. I can state frankly and succinctly that we just can't afford it. We do not feel that we can be competitive qualitywise by using corn in our beer; we know we can't be competitive pricewise with title III rice costs. The enactment of title III as part of the farm bill presents to us a predicament to which we see no solution.

I hold that we are a company of substance representing a total capital investment in Golden, Colo., of \$80 million. We employ over 1,000 people, produce annual sales of \$130 million, and we contribute annually \$45 million to the tax coffers of Federal, State, and local governments. I hold that we should have a right to the free choice of materials at prices which enable us to maintain our business in a strong and fair competitive position. Title III of the farm bill as presently proposed emphatically denies us this right.

I would now like to take issue with the U.S. Department of Agriculture's position that the domestic consumption of rice in this country is so inelastic that drastic increases in consumer prices which will result from the enactment of title III will not affect domestic consumption. I present myself as a consumer of 63 million pounds of

rice annually, three percent of total domestic consumption, who will be unable to buy rice under title III. Under title III, rice would cost me a minimum of \$9.50 per hundredweight as against \$5.50 today, an increase of 70 percent. Thus, the rice industry would be short \$6 million that I would not be paying on 63 million pounds of rice that I can't afford to buy. As I see it, this 63 million pounds of rice would have to go into export at a minimum net loss of revenue to the rice industry of the certificate cost of \$2,500,000. Should all brewers using rice react as I will have to react, and I am sure that they will, the minimum net cost to the rice industry will be the certificate cost on 300 million pounds of rice or \$12 million. This money would have to be made up by the Government or by a corresponding increase in the price of the certificates for that portion of it that still can be marketed domestically.

Finally, I would like to point out to the committee the irony of a proposed law—title III of the farm bill—which would deny American-grown rice to American brewers, yet grant a subsidy for export to other countries which use rice as a brewing material. I cite Japan as a prime example. Rice exports to Japan for the 1964 crop year will be some 400 million pounds. I present that the use of rice by Japanese brewers of sake and beer exceeds this amount.

In view of this testimony, it is my earnest request of the committee that title III be eliminated from the farm bill S. 1702 and existing legislation pertaining to the rice industry be continued.

Thank you, Mr. Chairman and members of the committee, for permitting us to testify on this matter which is so vital to my company.

The CHAIRMAN. Thank you very much, Mr. Coors. It is a very good statement.

Mr. Bender, we will hear from you now.

STATEMENT OF RICHARD J. BENDER, VICE PRESIDENT, PURCHASING, ANHEUSER-BUSCH, ST. LOUIS, MO.

Mr. BENDER. Gentlemen, Anheuser-Busch has requested the opportunity to appear today before this committee in order to fully explain its opposition to title III of the administration's proposed farm bill.

First, I should like to point out that this matter is of extreme importance to Anheuser-Busch because of our prominent position in the rice market. We estimate that Anheuser-Busch will use approximately 110,000 tons, or 73 percent of all of the brewers rice available in the United States in the year 1965. Further, Anheuser-Busch is reported to be the largest domestic purchaser, by volume, of the total amount of rice sold in the United States. Accordingly, the proposed legislation, in our considered opinion, will have an extremely serious impact upon the financial resources of Anheuser-Busch.

As we foresee the consequences of this legislation, it is quite possible that Anheuser-Busch will be required to pay an additional \$10 million annually for its supplies of brewers' rice. When one considers that labor costs are constantly on the rise and that the cost of most major materials have risen sharply during the past 6 months, and the fact that we are unable to pass these increased costs on to our millions of consumers, an additional \$10 million annual cost for rice could seriously affect our ability to compete in the marketplace.

It could perhaps be argued that since almost all other raw material costs are increasing, Anheuser-Busch should not take particular exception to an increased cost for rice. However, gentlemen, let me point out that rice differs from barley and hops, and bottles and cans and cartons in that it is a premium priced adjunct used by only a very few breweries and for which there is an acceptable substitute. Both rice and corn are used by breweries as a source of simple fermentation sugars. The sugars from the adjunct, in effect, dilute the concentration of malt materials and reduces their concentration in the final beer. The addition of the adjunct makes possible the brewing of a lighter beer preferred by the American consumer. Although rice is preferred by Anheuser-Busch because it contributes no flavor of its own and therefore insures the flavor image of Budweiser established with our consumers for over 100 years, corn is used by many brewers.

Now, let's look at the record for a moment. To the best of our knowledge, in the year 1955 there were 65 breweries using rice. By 1960 there were 16 breweries using rice. In the year 1965 there are only seven breweries using rice, and only two breweries using rice exclusively as an adjunct. It is a fact, gentlemen, that the vast majority of breweries have switched to the use of corn grits over the past 10 years because they could no longer afford to use rice.

So that you may better understand why only two breweries today use rice exclusively, let me project the economics for Anheuser-Busch. Assuming an annual usage of 110,000 tons of adjunct, to use rice costs Anheuser-Busch approximately \$10 million annually, while to use corn grits would cost Anheuser-Busch approximately \$7 million annually, or an annual differential of \$3 million. Gentlemen, these figures are based upon the current cost of brewers' rice of \$4.25 per hundredweight in the South. This is a premium which we are currently willing to pay because we recognize rice as the most perfect adjunct. At the same time, we recognize that many of our competitors produce a good beer while using corn grits as an adjunct. As a matter of fact, while we use rice exclusively as an adjunct in our Budweiser, we use corn grits in our Busch Bavarian product.

Over the past several years we have regularly reviewed the cost of our using rice instead of corn grits, and based upon the current differential we have decided to continue with the use of rice. However, title III of the proposed farm bill has caused us to make a thorough reappraisal of this decision.

We have been advised that the Department of Agriculture does not feel that this proposed legislation will result in an increased cost for brewers rice. We should like very much to share in this belief, but at the same time we recognize that rice millers will be forced to pass on their increased costs to the consumers. We are a very large consumer and, furthermore, we are in the unenviable position of using a by-product commodity where demand is well in excess of supply. For example, the States of Louisiana, Texas, Arkansas, and California produce annually approximately 150,000 tons of brewers' rice and this is only 40,000 tons in excess of Anheuser-Busch's annual requirements. However, there are six other breweries requiring brewers' rice and, accordingly, all of us are forced to purchase premium priced rice, screenings or secondheads which, from a brewing standpoint, have no increased value over regular brewers' rice. Finally, Anheuser-Busch

has had to resort to importing foreign rice and during the year 1965 we have purchased 36,000 tons of imported rice, or approximately 32 percent of our total annual requirements. Therefore, it is our firm belief that the rice millers, if this proposed legislation is enacted, will make every effort to raise the price of brewers' rice.

Gentlemen, we are not here to tell you that any increase in the price of brewers rice will result in Anheuser-Busch's switching to corn grits. We believe that rice is the finest adjunct for beer and we intend to make every effort to continue using rice. But at the same time, recognizing that we are already paying a \$3 million premium, it would be foolhardy to assume that Anheuser-Busch will accept additional increased costs which we believe this legislation will inevitably bring without giving extremely serious consideration to the use of corn grits. Should the differential become too burdensome, there is no doubt in my mind that Anheuser-Busch will find it necessary to forsake rice, and the rice industry will have to find some other market for some 110,000 tons of rice annually and face an extremely serious loss of revenue.

Gentlemen, Anheuser-Busch does not take issue with the administration's intent in proposing this rice legislation. We recognize that the Federal Government must make every effort to reduce its expenditures, but we do take issue with the inevitable results of this particular legislation from the standpoint of Anheuser-Busch for the following reasons:

One, we will suffer greatly increased costs for a commodity which is already priced at a premium because demand far exceeds supply.

Two, there is no doubt in our minds that further increases in the differential between rice and corn grits will inevitably mean that we will no longer be able to afford to use the best adjunct for Budweiser and the net result will be a loss of consumer acceptance for our product and the loss of an extremely important market for the rice millers and the ricegrowers.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Bender.

You said that last year you imported 36,000 tons?

Mr. BENDER. That is correct, sir.

The CHAIRMAN. Why did you import it? Was it because you could not get it in this country?

Mr. BENDER. About 4 months ago we were advised by our suppliers that to obtain additional rice for brewing we would have to go into the classification referred to as "second heads." And second heads are sold to us at \$5.75 a hundredweight. We purchased some 36,000 tons of Canadian rice at about the equivalent of \$5.50. So, actually, it was an economic decision.

The CHAIRMAN. But could you have gotten it locally for \$5.75?

Mr. BENDER. That is correct, sir.

The CHAIRMAN. Thank you. We will hear from you now.

STATEMENT OF JAMES ROWE, DIRECTOR OF PURCHASING, JOS. SCHLITZ BREWING CO., MILWAUKEE, WIS.

Mr. ROWE. Mr. Chairman and members of the committee, my name is James Rowe. I am director of purchasing for the Jos. Schlitz

Brewing Co. I am appearing in behalf of my company to state how title III of the administration farm bill will affect the use of rice as a brewing adjunct.

The Jos. Schlitz Brewing Co. is and has been a user of rice as a brewing adjunct for many years. As such we contribute a substantial share to the 13.6 percent that brewers use of the domestic consumption of rice. The brewers' share of the domestic consumption of rice is second only to the share individuals purchase for food in the United States and Puerto Rico. Title III is proposing that this domestic consumption underwrite costs of the entire rice program including Public Law 480 and food for peace.

Title III according to the administration is expected to reduce Government expenditures for rice by \$50 million in the 1966 crop year. This is to be achieved by transferring to the domestic consumer a sum equally as large or larger. There is reason to question the wisdom of this move for it saves the American public in general nothing, merely a transfer. If the money to be realized from the title III program is applied equitably to all domestic users, it is certain to substantially reduce the use of brewers' rice. At present prices brewers' rice is in a sensitive area where substitution is attractive.

In addition to being a substantial user of rice we are also a substantial user of corn grits. We depend on a combination of the two as an adjunct in our process. Our brewing department has conclusively proven they can achieve the fine quality of Schlitz beer with a substitute for rice. In our multiplant operation the matter of economics is a factor in the determination of the quantity of rice and corn we use. The fact we blend is an indication of the vulnerability of demand for brewers' rice to cost. A reduction in use or a complete elimination of rice for brewing will be the result of a price advance in brewers' rice.

Using \$50 million as the amount domestic users of rice will have to pay in higher costs due to title III, the brewers' share will be in excess of \$6,500,000. On this basis there is no doubt that breweries' requirements for rice would all but disappear. This would immediately reduce domestic consumption of rice by over 13 percent leaving a much smaller base to cover the cost of the program.

Consumption of 300 million pounds of brewers' rice annually represents an approximate revenue of \$13,500,000 for the U.S. rice industry. Title III enactment would result in a loss of this market and its revenue to the rice industry.

It is ironic at a time when the administration shows such an intent interest in reasonable increases in labor costs and no increase in the selling price of some items, that the Department of Agriculture sponsors a program that will increase the selling price of rice products by 30 percent to over 100 percent.

Gentlemen, the Jos. Schlitz Brewing Co. proposes title III be eliminated from H.R. 7097.

Thank you for giving consideration to our recommendation.

The CHAIRMAN. Thank you very much.

Mr. Bender, do you know where they grow rice in Canada?

Mr. BENDER. I believe that this is Brazilian rice that is milled in Canada.

The CHAIRMAN. That is it.

Mr. BENDER. I am not sure of that.

The CHAIRMAN. I was curious. I thought that maybe they had gotten it from us and then shipped it back.

We will next hear from Mr. Uhrig.

You may proceed.

**STATEMENT OF DANIEL J. UHRIG, WHEAT USERS COMMITTEE,
KANSAS CITY, MO.**

Mr. UHRIG. Mr. Chairman and members of the committee, I want to thank you for extending me the courtesy of appearing this morning so that I can get my plane out this afternoon.

My name is Daniel J. Uhrig. I am president of Interstate Bakeries Corp., Kansas City, Mo.

WHEAT

I am appearing on behalf of the Wheat Users Committee to comment on title I of S. 1702. Our chairman, R. Newton Laughlin, president of Continental Baking Co., has asked me to express his regrets at not being able to appear before you. He is out of the country.

The Wheat Users Committee was formed just a short time ago when it became evident that the Department of Agriculture was intent on forcing the full burden of the wheat subsidy program on the American wheat consumer. The committee is an informal association representing business and labor in the milling, baking, cereal, macaroni and assorted wheat food processing industries.

The committee's members include executive officers of food processing concerns large and small and the top executive officers of three international unions whose membership would be adversely affected. Attached as an appendix to my testimony is a list of the committee's members.

The committee is concerned over the effect of proposed legislation which would increase wheat and wheat flour prices, which would be paid ultimately by the consumer.

I would like to make one point clear at the outset. The Wheat Users Committee is not opposed to the farmers of this country receiving a fair return on their wheat. What constitutes a fair return is properly a matter of policy for the Congress to decide. We take no position on that matter. Our concern arises when the domestic wheat consumer is singled out to bear the burden of providing this subsidy to the farmer. If the Congress chooses as a matter of policy to provide the farmer with a return in excess of that provided by the marketplace, general Treasury revenues should properly bear that burden.

I am sure that you are all familiar with the provisions of the bill before you. Many of the provisions of title I are technical provisions as to which we have no objection. In fact, our main objection centers about the proposal to raise the cost of the domestic marketing certificate which processors must acquire from 75 cents for the 1965 crop year to at least \$1.25 for the 1966 and 1967 crop years. Under the certificate program provided by present law, the price support level for wheat accompanied by domestic certificates has been set at \$2 for the 1965 crop year. That \$2 price support level is composed of a loan rate of \$1.25 and a domestic certificate payment of 75 cents. Under the pro-

posed bill the Secretary would be authorized to set such price support level at \$2.50 or more, depending on what parity might be. The Secretary has testified that he will set the price support level at full parity. Assuming the loan rate remains at \$1.25, the cost of the domestic certificate would increase to at least \$1.25.

I am not here to debate the adequacies or the inadequacies of the concept of parity. It is, however, perfectly clear that parity has nothing whatsoever to do with the realities of the marketplace. And full parity for the farmer can only be financed by raising revenue in some fashion.

How the bill would affect wheat users, wheat consumers, and over 300,000 workers: As I have noted, the bill proposes to raise the marketing certificate tax on the wheat processor for wheat contained in food products from 75 cents for the 1965 crop year to at least \$1.25. That certificate cost of \$1.25 plus a loan rate of \$1.25, would, under the measure of certificate liability adopted by the Secretary of Agriculture, result in a wheat cost to the miller of at least \$2.50 per bushel.

I would like to make two comments on the certificate levy on processors:

First, as I am sure the committee realizes there is no such thing as a certificate. The Secretary of Agriculture simply requires processors to pay a sum of money each month to the Commodity Credit Corporation. Similarly, the farmer eligible to receive certificate benefits simply receives a check from the CCC.

Second, the measure of processor certificate liability adopted by the Secretary of Agriculture is being challenged in *The Morrison Milling Co. et al. v. Freeman*, C.A. 304-65, now pending before the U.S. District Court for the District of Columbia. The figures in my statement are based on the Secretary's interpretation of the measure of certificate liability, since millers are required by the Secretary to report on that basis pending final decision by the courts. The Wheat Users Committee does not agree with that interpretation. Whatever the outcome of the litigation, the proposed legislation would greatly increase the cost of wheat and flour and other wheat food products.

What would \$2.50 wheat mean in the way of increased costs to the American housewife, and particularly bread consumers, who account for by far the largest part of domestic wheat consumption?

To answer that question we must go back to 1963, the last year before the certificate program imposed its tax on wheat processors. Prior to that time the program was financed from general Treasury revenues. The loan level for the 1963 crop year was \$1.82 per bushel. During 1963, the average retail price per pound loaf of white bread was 20.7 cents (USDA Farm Retail Spread for Food Products, April 1965).

Congress then provided in the Agricultural Act of 1964 for the certificate program beginning with the 1964 crop year. The loan level was set at \$1.30, and the Secretary has collected 70 cents per bushel of wheat processed, making a minimum cost of about \$2 to the miller. The price of bread, however, according to the Department of Agriculture's statistics, remained at 20.7 cents. The increased wheat prices were absorbed by the milling and baking industries through a set of circumstances not likely to recur.

Now the Secretary proposes to increase the minimum cost of wheat to the miller to \$2.50. That would mean a 68-cent increase in the price of wheat over 1963. A 68-cent increase in the cost of a bushel of wheat is a \$1.60 increase per hundredweight of flour. Roughly, 100 pounds of flour will produce 150 pounds of bread. Thus this increases the cost of the flour in a 1-pound loaf of bread by more than 1 cent. In many markets, the leading loaf is 1¼ and 1½ pound, and the added costs would be proportionately higher for these larger loaves.

Secretary Freeman mentioned in his testimony before you last week that his proposal would cause a 0.7-cent increase in the cost of a pound loaf of bread. We disagree with that figure. I should point out that the executive message on H.R. 7097, title I of which is identical to the bill before you, states that the proposal would "increase the cost of a loaf of bread by little more than 1 cent." We believe this to be the more accurate statement.

To the direct flour cost increase of more than 1 cent there must be added an additional charge for all costs which increase automatically when the selling price of bread increases, such as salesmen's commissions, etc. It must be understood that bread is sold in multiples of 1 cent only. The housewife pays 21 cents, not 20.7 cents. The 20.7-cent figure is only an average. Finally, there should be added the retailer's markup. With these increases, the housewife will pay at the retail level an additional 2 cents for a pound loaf of bread as a result of this program alone, and 2 cents on a 21-cent item is almost 10 percent.

The CHAIRMAN. Would that decrease the consumption?

Mr. UHRIG. We think that it would be a very much decreased consumption. It has been our experience over the years whenever we make a sharp increase and we have made very, very few of them, there is a marked reduction in the consumption of bread.

The CHAIRMAN. Do you think that they will probably resort to using other materials than wheat?

Mr. UHRIG. No; we cannot use any substitute in the production of bread. What they would do is that they would go to potatoes, they would go to other foods. We compete with everything that is on the table. The housewife, when she finds that she is giving too high a price for the bread, she will just buy less bread and buy more of something else.

Since bread consumption averages 90 pounds per capita per year, the proposed bill would result in at least \$350 million additional costs to bread consumers annually. There would be an additional increase of at least \$50 million in retail prices of other wheat food products such as biscuits, crackers, family flour, macaroni, and breakfast cereals. Thus the total cost of the proposal would be in excess of \$400 million a year.

One of the basic purposes of this legislation is to increase the income of wheat growers by \$150 million. To tax the consumer \$400 million to raise \$150 million seems incomprehensible, and certainly not a very efficient way to raise the money.

Not only is it inefficient, it shifts the heaviest burden of the cost of this subsidy to low-income groups. Bread and other wheat food products are staples which play an important role in the nutrition of low-income groups. Such groups consume relatively more bread, and

other wheat food products are staples which play an important role in the nutrition of low-income groups. Their expenditures for wheat food products therefore are higher, both absolutely and as a percentage of total expenditures.

The Office of Economic Opportunity recently announced that there are some 35 million poor in this country who have 23 cents or less per meal to spend—50 million who have 30 cents or less per meal to spend. For these people, every penny counts.

There has been a leveling off of the downward trend in the per capita consumption of wheat during the past 5 years, but there has been a stability of bread prices to the consumer during that same period. In our opinion, a 10-percent increase in bread prices would start again this downward trend and would further aggravate the basic wheat problems.

It has been suggested that industry would not be justified in passing on the proposed 25-percent increase in the price of wheat, but rather absorb it. I am not here to seek your sympathy, but I would like to point out a few facts on profits in the milling and baking industry. In the milling industry, profits on sales average between 1 and 2 percent—and on the low side of that range. Indicative of the problems facing the milling industry, the Nation's largest miller recently closed down permanently about one-half of its milling capacity. Nor is the picture any brighter for bakers. Profits of six leading baking companies averaged 1.2 percent on sales in 1963—and 1964 was no better. This represents a reduction in profit on sales for these same companies from 4.1 percent in the 1947–49 period.

Nor can these earnings be related to the traditionally low profit factor in the retailing field. The baking and milling industries manufacture products which require large capital investments in plant and equipment. Our profits should properly be compared with manufacturers as a whole, where the average return on sales is about 5 percent.

I would also like to point out that our committee represents more than 300,000 working people whose jobs depend upon the health of the baking, milling, and other wheat-processing industries. They have all indicated that they favor the war on poverty, but they have also indicated that they would like to be the "fighters" and not the "victims" of this war. I might add that they are also confused by this whole program. When the tax is removed on furs, jewelry, and other luxury items and is shifted over to bread, they don't know quite what to make of the entire program; and, frankly, I am just as confused as they are.

How the bill would affect wheat farmers: To the farmer, 100 percent of parity has been a cherished goal. And it has been widely circulated in the farm community that this bill would give wheat farmers 100 percent of parity. In fact, however, the wheat farmer would receive 100 percent of parity for only about 45 percent of his production. It's a little bit like the student who failed a course: He was 100-percent right—45 percent of the time.

Let me review briefly the subsidies provided by the present law. Under it, farmers who cooperate by reducing planting are eligible to receive three benefits under the program with respect to their wheat production. The first benefit is the Commodity Credit Corporation

loan program. Under the 1965 crop program provided by present law, the loan rate has been set at \$1.25.

That means that the farmer is assured of getting a loan on his wheat for that amount. Second, the farmer receives a "domestic marketing certificate" payment. This payment is 75 cents per bushel for 45 percent of estimated production for the 1965 crop. That 45 percent represents the farmers' pro rata share of the total wheat crop consumed domestically. Third, the farmer received an "export marketing certificate" payment financed by general revenues. This payment is 30 cents per bushel for 35 percent of estimated production for the 1965 crop. Both the quantity and the value of the export certificate payment are determined at the discretion of the Secretary. Present law gives him authority to set each much higher.

The bill would actually represent little more for the farmer than the present law provides. All the bill would do is shift from General Treasury revenues to the domestic consumer the current cost of the wheat export certificate payment program. For the farmer, the average return of these benefits is what counts. Under present law, the average return was \$1.73 for the 1964 crop, and \$1.69 for the 1965 crop. See appendix A attached hereto for computation of these figures.

Under the proposed bill before you, the farmer would receive an estimated \$1.81 for the 1966 crop. The domestic certificate payment would be increased—to about \$1.25. But the export certificate payment now paid for from Federal funds would, according to Secretary Freeman, either be eliminated or substantially reduced.

The essential point is that the domestic consumer would be required to make up the decrease in the export payment. In other words, domestic consumers are being asked to subsidize the movement of wheat into the export market at a farm price of about \$1.25.

Let's look for a moment at the increased producer payments of \$150 million which the Secretary says he would provide. I am sure you are all familiar with the structure of wheat farming. See USDA Wheat Situation, February 1963, page 40. There are about 1.7 million wheat farmers. About 3 percent of the farms would receive well over one-third of that \$150 million, and about 15 percent well over three-quarters of it. The well-being of our wheat farmers is in fact the well-being of a very small segment of our farm population. We do not dispute their need for economic health, but surely as a matter of policy a consumer tax which would fall most heavily on the poor to benefit primarily so small a segment of the farm economy cannot be justified.

If Congress decides that wheat farmer income should be increased, that increase should come from General Treasury revenues, not from a certificate tax on wheat processors. By financing the increase this way, all taxpayers would bear the burden, not the low-income groups who can least afford it.

Moreover, the increase would go directly to wheat farmers, and would not generate the inflationary pressures that the proposed wheat tax increase would have.

I would like to make one final point on the question of budgetary costs. It is said that the bill before you would reduce the budgetary costs of the wheat program. But all this proposal would do is take

costs out of the Federal budget, where they would be borne by all taxpayers, and put them directly on the consumer. The subsidy costs are still there. But most of the revenue would be collected by the Commodity Credit Corporation rather than the Internal Revenue Service. By the magic of bookkeeping these costs do not show up in the Federal budget, but only in the books of the Commodity Credit Corporation.

There has been increasing concern in recent years over the continued growth of back-door financing. Yet under the present law and the proposed amendments, the Department of Agriculture has the authority to appropriate money and disburse it as it sees fit with no supervision by Congress. Much important information on the program, such as the recipients of disbursements, is not available publicly.

What are the budgetary costs of the wheat program which compel such an imposition on wheat users and the consuming public? I draw on figures submitted to the Senate Committee on Appropriations this spring by the Department of Agriculture. These figures do not include Public Law 480 food-for-peace program costs, which the Secretary has maintained for some time are not properly to be considered chargeable to the commodity subsidy program.

For fiscal 1965, the wheat program provided by present law is estimated to cost the Federal Government only about \$150 million, while the corn and other feed grain programs will cost over \$1.3 billion, and cotton over \$730 million.

The CHAIRMAN. \$900 million this past year.

Mr. UHRIG. Secretary Freeman testified before you only last week that "in terms of total dollars, the feed grain program is expensive." But rather than suggesting that the expenses be reduced, he went on to justify them on the grounds of policy.

I can only conclude that the wheat-consuming public is being singled out to bear an unfair share of the farm subsidy program.

And we take no issue with that.

COTTON

The CHAIRMAN. Before you get to your conclusion, if I may, last year I made every effort to keep the cotton program as it was. I argued that since 96 percent of the market for all textile goods manufactured in this country were sold to the best market in the world, that there was no reason why the textile mills, that is, the domestic textile mills could not pay for their cotton at the support prices or less, if they could obtain it, but I got licked on that. And last year we passed an act amending the Cotton Act to include a provision whereby the textile mills got a payment of \$473.5 million.

Mr. UHRIG. That is what I understand. And I pointed out that the \$150 million that this program has been costing is relatively small.

The CHAIRMAN. You know, there would be no contention to the contrary if the consumers of cotton had received this benefit as was intended, as was stated by the proponents—there would not have been much said, but contrary to that, they did not get it. It went up.

Mr. UHRIG. It is the same as this.

The CHAIRMAN. I see the similarity.

WHEAT

Mr. UHRIG. In conclusion, I would like to state that our committee opposes the proposed means of providing a fair return for the farmer. We have no quarrel with his receiving an adequate return for his labor. We do believe that it is an unsound principle to tax the wheat consumer \$400 million to provide \$150 million of benefits for the wheat grower. We believe it equally unsound to tax the wheat consumer to underwrite the cost of the export subsidy. We believe that the wheat consumer should not bear the burden of carrying either of these programs, but they should be paid for, in whatever amount the Congress decides, from the general revenues.

Thank you very much for hearing me.

The CHAIRMAN. Thank you. It has been a very fine statement. (App. A and app. B follow :)

APPENDIX A

	Average return per bushel	Loan rate	Domestic certificate payment	Export certificate payment
1964 crop: (Present law: loan rate plus domestic and export certificate payments)-----	\$1. 73	1. 30	¹ \$0. 70	¹ \$0. 25
1965 crop: (Present law: loan rate plus domestic and export certificate payments)-----	1. 69	1. 25	¹ . 75	² . 30
1966 crop: (Freeman proposal: loan rate plus domestic certificate payment only)-----	1. 81	1. 25	¹ 1. 25	None

¹ 45 percent of production.
² 35 percent of production.

APPENDIX B. THE WHEAT USERS COMMITTEE

- R. Newton Laughlin, president, Continental Baking Co., chairman
Willard W. Bickford, Herman Seekamp, Inc.
Lee S. Bickmore, president, National Biscuit Co.
J. C. Bowman, vice president, United Biscuit Co.
P. Richard Clark, president, General Baking Co.
Herbert M. Cleaves, executive vice president, General Foods Corp.
Daniel E. Conway, president, American Bakery & Confectionery Workers' International Union
R. H. Dean, president, Ralston-Purina Co.
Frazor T. Edmondson, vice chairman, Campbell-Taggart Associated Bakeries, Inc.
Paul S. Gerot, president, the Pillsbury Co.
Harold J. Gibbons, vice president, International Brotherhood of Teamsters
Russell J. Hug, executive vice president, Ward Foods, Inc.
H. E. Kettering, Kettering Baking Co.
Max Gralstein, president, Bakery & Confectionery Workers' International Union of America
C. Frederick Mueller, executive vice president, C. F. Mueller Co.
D. H. O'Connell, chairman and president, American Bakeries Co.
W. W. Paddon, chairman, Sunshine Biscuits, Inc.
H. Leslie Popp, Jr., Perfection Biscuit Co.
Percival J. Porth, Porth Pie Co.
Gen. E. W. Rawlings, president, General Mills, Inc.
Lyle Roll, president, Kellogg Co.
Albert S. Schmidt, Sr., chairman, Capital Bakers, Inc.
Robert D. Stuart, Jr., president, the Quaker Oats Co.
Daniel J. Uhrig, president, Interstate Bakeries Corp.
J. S. Vander Heide, president, Holland American Wafer Co.

The CHAIRMAN. The committee will stand in recess until 2 o'clock. (Whereupon, at 12 :45 p.m., the committee recessed, to reconvene at 2 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.
Mr. Geiger, you may come up with the rest of the gentlemen.

STATEMENT OF GERALD GEIGER, SECOND VICE PRESIDENT, CALIFORNIA FARM BUREAU FEDERATION

Mr. GEIGER. Senator, I appreciate the opportunity to appear; and if you will permit, rather than read my statement, I will depart from it in the interest of not being repetitious.

RICE

The CHAIRMAN. You may place your statement in the record.
(The statement is as follows:)

Mr. Chairman and members of the committee, my name is Gerald Geiger, second vice president of the California Farm Bureau Federation. I am a rice producer farming 350 acres in a family partnership near Richvale, Calif.

I am testifying for the California Farm Bureau Federation which fully supports the position of the American Farm Bureau Federation previously set forth to this committee in opposition to S. 1702.

The California Farm Bureau Federation supports the provisions of the Agricultural Act of 1958 as it affects rice, and feels that any radical departure from this established pattern will create serious problems for the California rice industry.

We specifically oppose the provisions of title III of S. 1702 known as the rice certificate plan since we believe that:

1. The unfair tax imposed upon the rice consumers would seriously disrupt long established marketing patterns for California rice;
2. It would widen and perpetuate the gap between domestic and export prices;
3. It would seriously impair California rice producers' income; and
4. It would be as costly, if not more costly, than the direct cost of the existing program.

There are many other excellent reasons why this program should not be instituted which have not been developed; however, probably the best reason is that, in our opinion, no new legislation is really needed.

The American Farm Bureau Federation and other producer groups have, we believe, substantially proven this point in testimony submitted at this and other hearings on this subject.

I have accompanying me today three gentlemen representing our position who have individual statements which they would hope to present. They are all currently engaged in rice production and are well qualified to speak on this subject. They are Roy Grell, William Otterson, and A. Hughes Williams.

Mr. GEIGER. My name is Gerald Geiger. I happen to be second vice president of the California Farm Bureau. I am a rice producer farming 350 acres in a family partnership near Richvale, Calif.

I am testifying for the California Farm Bureau Federation particularly supporting the position of the American Farm Bureau Federation previously set forth to this committee in opposition to S. 1702.

I have three gentlemen with me who are also interested in our rice division in California. Mr. Grell is chairman, Mr. Otterson is from the other end of the State, and Mr. Hughes Williams.

It is also interesting that we represent a cross segment of the crops in California, plus one independent grower down there.

Coming to this position in the hearing, when most of the statistics have been given, and well given, I would like to say this. It seems ironical to me that I have just come from a conference, seminar, if you

please, that was sponsored by the Marketing Division of the Department of Agriculture, as well as the research economists of the land-grant colleges and others in some 20 States, members of the Department from Washington being there, on the program—we spent 3 days discussing the various aspects of development of domestic and foreign markets for all agricultural products, as well as the advantages of promotion and advertising—and I think it is ironical then to come back and find myself in the position of testifying against the bill put forth by the same Department, which would certainly, as far as California is concerned, be in direct opposition to all the things that they were promoting in this particular seminar.

I recognize the inconsistencies of Government. But I am certain that if the economists in the Department look at it they will get the same answers that we as producers get.

The other aspect that bothers me, coming from a general farm organization, and also having youngsters coming on interested in becoming farmers, is a problem of financing these members of the younger generation as they find it necessary to come into business, particularly when our industry has been developed primarily in relation to the Agricultural Act of 1955 and 1958. A radical change of this type would really upset the private industry financing. We find it very difficult to find any lending institution willing to give you the necessary support to go into this business. And there are other problems without this one.

I think those are two aspects that you have been discussing that might be useful to you in your deliberations.

The other gentlemen have statements. It is their option whether they would like to read them or enter them in the record and make any comments on them.

STATEMENT OF ROY GRELL, CALIFORNIA FARM BUREAU FEDERATION, RICHVALE, CALIF.

Mr. GRELL. Mr. Chairman and members of the committee, I am Roy Grell, a second-generation ricegrower from Richvale, Calif. Our family farm consists of myself, my brother, and our mother. We have 375 acres of rice allotment. Landlord allotment brings our total rice planting to 675 acres.

I am also chairman of the California Farm Bureau Federation Rice Division and chairman of the Butte County Farm Bureau Rice Division.

California ricegrowers are very concerned over the effects title III would have on the California rice farmer. We believe it would totally disrupt our successful marketing program. Its long-range effect would be to discourage increasing use of our product.

California ricegrowers are ambitious, efficient, and farsighted. Over the years we have been building dollar markets for California rice by delivering a quality product at a competitive price. Title III would deliver a knockout blow to the California rice industry by taxing our customers and causing them to look to other products or other sources for rice.

We have a philosophy in California that it is better to sell to the consumer on the market than to store and carry over our rice in Gov-

ernment stocks. The California ricegrower is aware that the Federal Government has given vital assistance in some of our dollar sales through the export subsidy. We are also aware of the total cost of the rice program and are hopeful that these costs can be reduced without total disruption of our present markets. And we believe that these costs can be reduced with the legislation that is now on the statute books.

Title III does not offer a workable or desirable long-range substitute for the present rice program. If farm income is to be maintained and, hopefully, increased, future rice programs must be planned to encourage efficient production, reduce administrative costs, and to promote market expansion. Title III would not do any of these, and I would respectfully urge that it be eliminated from Senate bill 1702.

Thank you.

The CHAIRMAN. Thank you very much.

STATEMENT OF WILLIAM M. OTTERSON, VICE CHAIRMAN, RICE DIVISION, CALIFORNIA FARM BUREAU FEDERATION, MERCED, CALIF.

Mr. OTTERSON. My name is William M. Otterson. I am a ricegrower from California, and I have been most of my adult life.

I would like to have my statement entered in the record. I can't say anything that hasn't been said.

However, I would like to emphasize a few points that I have thought of interest.

(The statement is as follows:)

Mr. Chairman and members of the committee, my name is William M. Otterson and I am president of Otterson Ranch, Inc., a California corporation, with farming interests in Merced County, Merced, Calif. I am president of the Merced Rice Drier Co., Inc., vice chairman of the rice division of the California Farm Bureau Federation and a member of the Farmers' Rice Cooperative of California.

I am a California rice producer and have been for most of my adult life. My rice operation this year totals in excess of 700 planted acres which is farmed by my corporation on land owned by my wife and myself. I believe with all sincerity that I am speaking for hundreds of other ricegrowers in the central San Joaquin Valley and thousands of others in the State of California when I speak in opposition to the rice provisions of Senate farm bill 1702.

I speak in opposition to the bill for the following reasons:

1. California markets some 55 percent of its rice in domestic markets—these markets are predominantly Hawaii, Puerto Rico, California, and New York. Consumers would be forced to pay approximately a 50-percent increase for rice over what they presently pay. The result would be to place a severe burden on the consumers.

2. The certificate plan would undoubtedly result in much lower incomes for California farmers through the loss of domestic markets. While this plan affects consumers, I have calculated that my income will be reduced by 15 to 20 percent, and this is materially true of all of my neighbors in the rice business. This is a cumulative process since the amount of domestic marketing certificates received by growers are based on the percentage of each crop sold in domestic markets.

3. It would discourage the expansion and the use of rice by cereal manufacturers and brewers. The purveyors would promote some other less expensive cereal grain. The brewers would use a cheaper grain in their malt even though many breweries prefer rice.

4. The principle of imposing a milling tax on rice consumed domestically in order to support rice farm programs or foreign aid programs is basically wrong.

since the cost is disproportionately divided among limited segments of our population.

5. The certificate plan is a direct payment to growers and it puts us even more under control of the Government. Freedom of enterprise is what this great country of ours was built on.

Mr. OTTERSON. It seems to me that the California rice growers and the cooperatives as well as the independent mills have gone to a lot of planning to set up a domestic market. And it seems that this certificate plan, according to the brewers and the manufacturers of cereal grains and such, would ruin that market.

California farmers, at least the cooperatives that I am connected with, would rather sell their rice than to have it laid on the market.

I have a 19-year-old son that is coming up, he is going to go in business with me. And I look more to the future of what our economy is going to be than what it was yesterday or what it is today. And I think, if we don't get some kind of a more workable program, the future of our younger generation is possibly in jeopardy.

After World War II it seems that the Government of the United States said to the farmers, "We need food, we need grain, go out and grow it." And we did too good a job.

But we are not faced in rice with the situation of oversupply, with the fact that these foreign countries, two-thirds of the world, their main diet is rice, though they are unfortunate in the situation that they don't have the money, the hard dollars to buy our rice. It may be that they should be looked into, the fact that the rice that is on these aid problems that goes to foreign markets in exchange or to feed the population of the world should come from something besides the Agriculture Department. Maybe you could have it tied in with your foreign relations department, because in Thailand, for instance, the Government coffers are filled with the money that they get for their rice in the world market.

In short, what I am saying is that I would sincerely hope that in the future the legislators of this great country of ours wouldn't legislate the farmer to such an extent and have such control over him that they would legislate him out of business.

Thank you.

The CHAIRMAN. Thank you very much.

STATEMENT OF ARTHUR H. WILLIAMS, CALIFORNIA FARM BUREAU FEDERATION, SOUTH DOS PALOS, CALIF.

Mr. WILLIAMS. Mr. Chairman, my name is Arthur H. Williams, and I, too, am a rice farmer.

I would like to offer my statement for the record. And I would like to make a few comments, mainly from the last page, because what I would say has already been said.

(Mr. Williams' prepared statement is as follows:)

My name is Arthur H. Williams, Post Office Box 188, South Dos Palos, Calif. I am here to speak in opposition to Senate bill 1702, representing the rice farmers of the California Farm Bureau Federation and also myself, inasmuch as I am a rice farmer.

My experience in rice began in 1948 when I became the director of the rice experiment station in California.

I later became the superintendent of a large rice operation and for the past 6 years I have been farming from 750 to 1,000 acres of rice each year.

Over this period, I have seen a great deal of progress in our industry and have enjoyed playing a role in that progress.

I honestly feel that our industry is in serious danger if the proposed legislation for rice in the farm bill is allowed to pass.

There are several reasons that S. 1702 will hurt the California rice producer and some of them are:

1. California growers sell about two times as much rice domestically as the other producing States: 60 percent as compared to the national average of 35 percent.

Therefore, if we use the national average figure for the proposed domestic certificate share, then California stands to lose about 35 percent of its benefits from hard-earned domestic market.

2. Most of California domestic market is in Puerto Rico and Hawaii. These two countries are large per capita consumers, 100 to 150 pounds. An increase in cost to these consumers would probably force them to go elsewhere for their rice. We, like the cotton people, would find ourselves priced right out of our two most important markets. Result—net income loss in markets.

3. The bill as proposed is to cut the cost of the program, but it proposes a serious threat to the low-income people who are heavy consumers of rice because of the 50 percent increase in domestic rice.

4. Of the present \$180 million that the rice program costs, California contributes about \$7 million.

Is it fair that we should be forced to carry the burden we had no part in creating?

5. The proposed bill contains provision to encourage inefficient operation to remain in operation.

Is this progress?

(The larger the producer in terms of acreage and yield the higher the income loss under the new program.)

6. One more step closer to a complete Government production management of U.S. agriculture.

Now I would like to make a statement on behalf of myself.

I am a rice farmer. Over the past 6 years, I have raised between 750 and 1,000 acres of rice each year. I am also associated with Bill and Ed Koda Rice Farms in the milling and marketing of our rice. The Kodas farm about 1,600 acres each year and own their own rice mill.

Neither I nor Kodas belong to a rice cooperative. We market all of our rice under our own brand name domestically—principally on the west coast and Hawaii. We sell under only one grade, U.S. Extra Fancy No. 1.

I am also a plant breeder. I developed the varieties that we sell. These were developed with our own money and resources. No aid was received from any Government source, Federal, State, or local. Our present variety cost us approximately \$100,000. This variety is well accepted and we can sell all we raise at premium prices. We don't have to export any of our rice. None has been placed under CCC loan. We would be the big losers under this new program. Private enterprise and incentive are being discouraged under the language of this bill.

Please, gentleman, it is time to wean us away from depending on Government handouts. Let us stand on our own. Any new legislation should be in this direction; not getting us more entangled in the red tape of Government dependency.

I am one of the 15 percent that Mr. Alioto spoke of earlier today. I am an independent. I do not belong to any of the co-ops in California. And even more unique than that, probably there are only two of us left in California actually in my category. I am associated with a farm that has their only rice farm mill. Even though I am an independent grower, I market through an associate of mine, market my rice through this associate.

The CHAIRMAN. You say you have your own mill.

Mr. WILLIAMS. Farm mill, that is right.

The CHAIRMAN. And do you have rice to mill other than your own?

Mr. WILLIAMS. No, we only mill the rice that we grow. There are two of us involved.

The CHAIRMAN. What is the size of your farm?

Mr. WILLIAMS. In my operation I have about 50 to 1,000 acres of rice. In the other operation there is about 1,600 acres of rice.

And in addition to this, we raise sweet rice, which is not involved in any of this type of program. But we are the sole producers of sweet rice in the United States.

The CHAIRMAN. What is that used for?

Mr. WILLIAMS. It looks like rice, but it is used mainly by the Orientals, the Japanese and Chinese for their ceremonial dishes, for their candies, and so forth. And then the starch has value as a starch. The food process is used.

The CHAIRMAN. How do you dispose of it, mill it or——

Mr. WILLIAMS. Mill it and flour.

We do occupy a rather unique position in that we are the only ones that produce that in the United States.

The CHAIRMAN. When you put the acreage——

Mr. WILLIAMS. This excludes sweet rice. We are talking about table rice now.

The CHAIRMAN. Proceed.

Mr. WILLIAMS. This bill would really cut us right in two because of the position we hold.

I am a plant breeder in addition to being a rice farmer. My career in rice started—I worked for the Department of Agriculture as the superintendent of the Experiment Station in California. And I developed the variety that we grow on our own operation today. And we have developed a very excellent market for our product. We get premium prices for it. And we sell all that we can to go to domestically. And by domestically I mean on the west coast and Hawaii.

We sell all we can grow. We have never at any time used any Government program in our operation; even in the development of our varieties that we have, we have never received any aid from the Federal, State or local. In fact, the principal variety that we are using has cost us about \$100,000 of our own cash to develop.

You can see what a certificate plan would do to our operation, where we have invested all this money to develop a very excellent market for the product, which we do get premium prices for.

And then if we are only allowed 35 percent of that market which we have developed, it would cut us right in two.

The CHAIRMAN. You say you get a premium price. Is it because of the quality of the rice, or the kind?

Mr. WILLIAMS. Because of kind and quality. We only sell one grade of rice out of our mill, and it is U.S. Extra Fancy No. 1. That is the only grade that comes out of our mill.

The CHAIRMAN. Do you sell any to Japan?

Mr. WILLIAMS. No, it is locally, west coast and Hawaii.

The CHAIRMAN. So you have no problem of having—what you sell it for is a support price, or maybe a little more, as you say?

Mr. WILLIAMS. The top price, yes, the support price plus a little more.

The CHAIRMAN. And you don't sell any to foreigners?

Mr. WILLIAMS. No, sir.

That is all I have, sir.

The CHAIRMAN. Thank you.

Mr. GEIGER. Senator, I might add that Mr. Grell referred to our former association with the ASC offices.

There is one area that might not have been touched on.

I didn't hear the testimony, but this was a part of the record in the House Oilseed Committee. And something that wasn't discussed there was the cost to the Department of Agriculture of getting the necessary equitable acreages and poundage controls which they do not now have. This is one area of cost which hasn't been discussed by the Department to my knowledge.

And secondly, the fact that since you are now instituting a new tax, the cost of setting up a bureau to enforce the cost of running this certificate plan—I would have no idea what the cost would be, but I do know it would be an added cost.

The CHAIRMAN. It will be enough.

Mr. GEIGER. And it is interesting to know that the ASC offices in the State are already expending money, both at the County and the State level, to determine these poundage controls for rice. And I have been contacted by both.

Thank you.

The CHAIRMAN. Thank you.

The next witness is Mr. Marcus Mauritz.

STATEMENT OF MARCUS W. MAURITZ, GANADO, TEX.

Mr. MAURITZ. My name is Marcus Mauritz, from Ganado, Tex., and I am president of the Rice Council on Market Development, and president of the local marketing association, and a director of the American Rice Growers Association.

I did not prepare a statement, because, as you can see, I think I am the last one on the list. It was supposed to be my job, if any body left out anything that hadn't been said, I would say it.

Well, I think everything has been said, and it has been said twice. And rather than say it the third time, I just want to say that I agree entirely with all the opposition to the President's bill as presented by the administration—and with apologies, Senator, to yours also, in principle.

I think that there can be worked out, if necessary, a solution to the problem. And as a member of the Advisory Committee, I would like to reiterate all that has been said there, and also express the opinion that if the Department sees fit to call this Advisory Committee together, there is no doubt in my mind that if they will listen a little bit we can solve this problem, without such drastic legislation as has been submitted.

Thank you, sir.

The CHAIRMAN. Thank you very much.

All right, Mr. Woodworth.

STATEMENT OF ROBERT C. WOODWORTH, CHAIRMAN, AGRICULTURE COMMITTEE; W. B. CAMP; AND WALTER B. GARVER, MANAGER, AGRICULTURE DEPARTMENT, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. GARVER. I am Walter B. Garver, manager of the Agriculture Department of the U.S. Chamber of Commerce.

This is Mr. W. B. Camp, of W. B. Camp & Sons, Inc., Bakersville, Calif., a director of the chamber.

And this is Mr. Robert C. Woodworth, Cargill Foundation, Inc., Minneapolis, and agriculture director of the chamber, and chairman of our agriculture committee.

The CHAIRMAN. The stage is yours.

GENERAL

Mr. GARVER. Senator Ellender, we have an unusually long statement which we are not anxious to inflict on you. At your pleasure, Mr. Woodworth, as chairman of the committee, is prepared to give a brief summary, and this would give an opportunity to question these two men who are experts in their particular fields.

The CHAIRMAN. The statement will be printed in the record in full, and you may highlight it if you desire.

(The statement referred to follows:)

THE FALLACIES OF PARITY

Past and current farm policies and programs have been aimed at supporting and increasing farm income. The standard for this effort has been parity, a measure of "economic equity" and usually equality with rest of the economy. This effort has been supported in the name of economic justice. If such a concept has any meaning at all, it must be defined as distribution of wealth or income according to merit. But there is no basis for determining merit by legislation except in the subjective judgment of legislators and the supporters of such legislation.

In a free society economic merit arises from the values which free people making free choices place upon what they want to produce or do, and what they will work for, and buy and pay for. The only justifiable and dependable measure of merit or value is, therefore, one that reflects the choices people freely make in the marketplace.

The parity concept attempts to compare the whole of farming with the average level of the rest of the economy. In our diverse and complex economic society segments below average cannot be raised arbitrarily without reducing those above the average and lowering further other segments below it. Attempts to do so deny and frustrate the constructive dynamics from which the Nation's progress has come to great and productive achievements.

The attempt to achieve parity for agriculture invites and encourages other below-average industries and occupations to petition remedies for themselves.

If it were to become an established and permanent function of the Congress and the Federal Government to adjudicate and revise the distribution of income for and between industrial groups, the whole fabric of our economic society, based on human motive in response to economic forces, would be destroyed. If parity of income is a legitimate concern of Congress, why then should not several other industries come to Congress to demand parity?

Measured in terms of corporate profits after taxes, the transportation industry could say it was getting less than 44 percent of parity. The iron and steel, and the finance industries would each be 40 percent below parity; the meat-packing industry would be at less than two-thirds of parity; the earnings of the building equipment industry would be 30 percent below parity; and the textile industry would be at only 80 percent of parity.

Bureau of Labor Statistics figures show that workers in a number of service, distribution, manufacturing, and finance industries could say that their average incomes in their industry are below parity if parity is the national average earnings of employees in all industries.

We do not for the moment suggest that these illustrations are cases of economic injustice. Nor do we suggest that these incomes below average are matters which the Congress can or should attempt to change. The point is that when you compare below-average industries with the average for all, just as good a case for parity can be made for them as can be made for farmers, or for the farm business.

There are real and compelling reasons for these kinds of differences in a varied and free society. They will persist as long as society is free and varied. Some of these reasons are: wide differences in education and training; very great differences in the degree and kind of skills learned and required; lack of full-time, year-round employment in some occupations; differences between the supply and the demand for workers in the several occupations; differences among people in their preferences for the kind and nature of the work they do and in the value that they place on nonmoney considerations; differences arising from different degrees of risk.

Above all, there are differences between industries in their structure, function, markets, risks, and in the nature and degree of competition within and between them that result in unequal incomes. These differences in income are the signals by which the national economy constantly adjusts resources, both material and human, to changing needs and tastes.

These guides are much better left to carry out their functions than to be put into the hands of Government. If it is a function of Government to assist some segments of the population, it does not mean that such segments should be shielded indefinitely from adjusting to the necessities and realities of an ever-changing society. The Congress cannot effectively provide parity for everybody and it ought, therefore, to adopt a more realistic and consistent policy to deal with agricultural problems than by unworkable notions about parity for farmers.

Agriculture as a whole has never experienced parity of income as it is defined by its proponents. Even price parity has come only briefly under abnormal conditions of unusually large and unprecedented demand. In the 20th century the per capita purchasing power of farmers has exceeded one-half that of the rest of the economy only briefly during World War I, during most of World War II, and again during the Korean war period. Even in these periods it never rose above 65 percent of the nonfarm purchasing power.

Society can judge the performance of the farm industry in terms of how well it meets the Nation's needs. It has performed with phenomenal success. Not only is there an abundance of economically priced food and fiber at home, but large supplies also have been furnished for international humanitarian benefits and in support of this country's foreign aid and related international considerations.

The rewards, or returns, to farmers have been adequate enough to keep such supplies ample. Generally those who were not satisfied with the rewards have had opportunity to leave farming for more remunerative pursuits, and most of them have done so.

The taxpaying public will, we believe, support public disbursements to aid farmers in adjusting to a rapidly changing farm technology. But the public will not accept indefinitely the burdens required to achieve for farmers as a whole a parity of income which agriculture has never known, nor an artificially managed income which, if achieved, can only be done at the expense of heavy burdens on the consumer and taxpayer, and by imposing unbearable restraints on farmers.

THE RECORD ON FARM INCOME RELATED TO GOVERNMENT PROGRAMS

Regardless of the wisdom of aiming at parity, Federal Government commodity programs have been long designed and operated to serve the parity goal. After many years of experience a look at how well commodity programs have served this end is necessary.

For the recent period, starting with 1954, the U.S. farm cash receipts from sales of products, the production expenses, and the net sales were as follows :

[Dollars in millions]

Year	Gross cash receipts	Production expenses	Net sales
1954	\$29,953	\$21,631	\$8,322
1955	29,956	21,833	7,723
1956	30,564	22,526	8,038
1957	29,824	23,246	6,578
1958	33,405	25,171	8,234
1959	33,512	26,137	7,375
1960	34,012	26,177	7,835
1961	34,923	26,864	8,057
1962	36,077	28,161	7,916
1963	36,925	29,034	7,891
1964	36,743	¹ 29,700	¹ 7,000

¹ Preliminary.

From 1954 through 1964 the total of gross cash receipts from marketings of commodities rose by \$6.8 billion. This was mostly due to an increased volume of marketings. The receipts figures include the price-boosting effects of price-support programs on commodities.

Production expenses rose during the same period by \$8.1 billion. The “net sales” (what was left over to farmers after paying production expenses) declined from a total of \$8.3 billion in 1954, by \$1.3 billion to \$7 billion for 1964.

From this it is clear that the price-support programs have not benefited farm income from commodities. On the contrary, it seems clear that their effect has been to underwrite, or subsidize production costs, making larger volumes possible.

This is not a surprising development. It is a part of the rational business behavior of farmers, as well as other producers. As long as 9 cents will yield a return of 10 cents, the effort will be made. When the return is, say, 12 cents the producer can then afford to spend perhaps 11 cents to get the 12 cents.

During this same period there have been annual net increases of capital invested in agriculture. This is not only due to a continued rise in prices of farmland for farming purposes, but is also due to increasing investments in machinery and equipment and other capital items. This is important because it denies the claims of those who talk of “depression” in agriculture, or who see it as an industry in distress. American agriculture has become increasingly “capital farming,” but such net capital investments would not be made if the farmers and others making these investments expected them to be lost.

U.S. farmers did get more money income in 1964 than in 1954. But this was due to direct Government payments to them in addition to the commodity support programs. In 1954 these payments amounted to a quarter of a billion dollars. By 1964 these payments were nearly 10 times as large, amounting to \$2.2 billion.

These figures are overall totals for U.S. agriculture as a whole. From 1954 to 1964 the number of farms declined by 1,326,000, or more than one-fourth. During the period income per farm rose.

Income per farm

	1954	1964	Percent change
From net sales of commodities	\$1,737	\$2,016	+16
From Government payments	54	624	+1,055
From both	1,791	2,641	+45

In 1954 only 3 percent of the income from both sources was by direct Government cash payments. For 1964 the proportion was nearly 25 percent. But the fact remains that between 1954 and 1964 farmers increased production expenses by more than the increase in the receipts from sales of commodities. From this it seems clear to us that whatever benefits there were from price-

support and related commodity control programs, they were not income benefits, but subsidies to production.

THE FUTILITY OF ACREAGE DIVERSION

Achieving adjustment between supply and demand at “satisfactory” prices by diverting substantial amounts of cropland from production to other uses is an exercise in futility. This approach in one form or another has been tried long enough to warrant the conclusion that it cannot produce the results sought.

Not much more can be said for the effort to contain farm production by acreage controls. A look at the record on diversion and the cropland devoted to the 59 principal crops for just the last few years shows :

	Average, 1957-61	1964	Changes
Harvested in 59 principal crops.....	311, 879, 000	293, 324, 000	-18, 550, 000
Diverted cropland.....	19, 200, 000	57, 700, 000	+38, 500, 000
Total harvested and diverted.....	331, 079, 000	351, 024, 000	+19, 945, 000

There was, thus, by 1964, an increase of 6 percent in what is supposedly cropland. In spite of a decline of 6 percent in the total acreage harvested in the principal crops there was, between 1957-61 and 1964, an increase of 6 percent in the total volume of crop production.

During this same period the 19 principal wheat producing States reduced their total cropland in 59 crops by 12 million acres, more than 5 million acres of which was for wheat and corn alone. Yet, they produced more wheat and corn in 1964 than in the earlier period.

The 26 States which are principal producers of wheat or corn reduced their cropland acreage 17 million acres in this period, yet they produced more wheat and corn than earlier, more than offsetting a substantial decrease in grain sorghum production, and in addition to a large increase in soybean production.

Fifteen years ago it took 60 to 70 million harvested acres to produce a crop of wheat of a billion bushels. Now we produce 1¼ billion with less than 50 million acres harvested.

At the time of the Korean war we used more than 25 million acres to produce 15 million bales of cotton. Now we do as well using less than 15 million acres.

Fifteen years ago it took a harvested acreage of 80 million to produce 3 billion bushels of corn. Now we do even better with less than 60 million acres.

The land area for crops today is of decreasing relative importance in the Nation’s total production. It is becoming little more than a workshop in which seeds, water, plant nutrients, insecticides, machinery, labor, and skill are combined in a growing number of different ways to produce an optimum result.

Limiting acreage, or diverting it, only gives impetus to techniques to increase yields. The reason for this is obvious—an efficient farmer will try to spread fixed or overhead costs over as large a volume as possible in order to reduce unit costs.

It is difficult to see how limiting cropland can effectively reduce output unless a Government agent comes onto every farm as an operating “partner” with the farmer to enforce decisions on how he plants, cultivates, and manages his crops in order to prevent him from producing, in the smaller “workshop,” as much as before.

Moreover, there is no general public support for a program which pays farmers for not producing, especially when “not planting” results in net returns to farmers as good as they can get from producing. Public intolerance of this approach is rising.

Cropland diversion programs can be justified on only one ground—that they could be used as a short-run measure to provide temporary and transitional assistance to producers while they adjust to freer market conditions in the commodity or commodities they produce. No substantial and lasting production adjustments can be expected from land diversion. If such measures are to be used, no more should be expected of them than that they provide temporary aid. They are not an effective tool for adjusting production.

EXPANSION OF MARKETS AND THE WHEAT AND RICE PROGRAMS

To continue the wheat certificate plan for wheat and to increase the value of the certificates can only create further trouble for wheat in time to come. The same is true if the proposals for a certificate plan for rice are adopted.

The costs of these certificates must be absorbed largely, if not entirely, by users. Such costs raise the prices of the end products, such as bread. The objective of a good commodity program ought to be to promote and encourage consumption. Higher prices simply lead some users to forego consumption, leaving a smaller consumption market made up only of those able and willing to pay the higher prices.

This promotes and encourages the development of substitutes. In the wheat and flour industry the future for some time has been darkened by the declining per capita consumption of wheat and its products. As the Nation's plane of living rises, and especially as the individual's income rises, there is a tendency to shift from bread and wheat to meats and more "expensive" foods. Increasing the price of wheat products (or of rice) puts these products even more at a relative disadvantage. It hastens and increases the magnitude of such shifts.

Wheat producing, processing, and distribution interests some months ago began work together to promote the increased consumption of wheat—to expand the market for it. The certificate approach cuts the ground from under such constructive efforts.

The proposals for wheat and rice treat these commodities as though they have no near substitutes. Yet anyone who has ever watched the housewife make shifts in family buying between wheat, rice, and potatoes, to name a few, is aware of the choices that can be made.

In addition to this, the costs of the certificates, whether they be called a "bread tax" or by another name less offensive to some people, fall with regressive impact on those people for whose diets these products are of relatively greatest importance.

The export markets for wheat and rice are fundamental parts of the farm economy for these commodities. Really drastic adjustments will come if we do not continue to develop and hold export markets. Yet even among friendly people this Nation is criticized for subsidizing its exports in competition with them. The certificate plans perpetuate these evils.

The American consumer and taxpayer have grounds for objecting to paying a premium price at home in order to subsidize exports. This is a game that other countries can and are playing. A lasting place in markets both at home and abroad can be achieved only by settling down to producing competitively, and holding our own competitively, or abandoning the markets in which we are unable to compete. If we cannot compete it is bad policy if wheat and rice farmers are to be casualties in the end, to keep farmers in wheat and rice production indefinitely. Nor is it fair to taxpayers who are also consumers.

THE COSTLY FAILURE IN FEED GRAINS

The 4-year program for feed grains has cost the taxpayer upward of \$5 billion by responsible estimates. About the only claim to success that can be made for it, if this was its purpose, is that it has in 4 years put more than \$3.6 billion directly into farmers' hands for diversion—and for price support payments.

Defenders of this program claim success based on arbitrarily devised and speculative estimates of how much feed grains would have been produced if there had been no such program. By guessing at "what might have been" without the program, apologists for it claim its success is in the "prevention of production."

Under the program producers have been paid from \$25 per acre in 1962 to over \$35 per acre in 1964 for diverting land from feed grain production. On high-yielding corn land this payment has run as high as \$70 per acre.

One of the claims made for the program is that it reduces the carryover of feed grains. From 1960 through 1964 the carryover was reduced, but the reduction was due to other factors; the increased utilization of feed grains; and the reduced production of oats, not covered by the program. But even if the full credit could be given to this program for all the reduced carryover, its cost to the public would be close to \$4 per bushel, corn equivalent, of reduction. This is three times the current market value of corn.

The program has stimulated a rapid increase in yield of the feed grains covered. Corn yield has risen by 17 percent since the start of the program. Grain sorghum yield has increased by three bushels per acre. Barley yields are up one-sixth.

What has been the effect of the program on production of the two principal feed grains, corn and grain sorghum? The 1957-60 4-year average total acreage of corn harvested was 67.6 million acres. By 1964 this had been reduced to 57.1 million, a decline of 10.5 million acres, or 15 percent. (Corn accounts for nearly three-fourths of all feed grains produced.)

But no such reduction can be claimed for corn production. In the same 4-year period, 1957-60, the average annual production of corn was 3,533 million bushels. In none of the 4 years 1961-64 under the feed grain program has total corn production been that low. In 1961-63 it was 2 to 15 percent above that average. Only in 1964 did it come close with a total 3,549 million bushels, and this showing was due only to reduced yields because of unfavorable weather and growing conditions in major parts of the corn area.

The record for grain sorghums is a little more creditable. Sorghums account for 10 percent of all feed grain production. From the average of 1957-60 the acreage harvested declined from 16.8 million to 11.9 million for 1964, a reduction of just under 30 percent, or nearly 4.9 million acres. The production of grain sorghums declined from the average of 600 million bushels in 1957-60 to 490 million in 1964, or, by 18 percent. If this 110 million bushel reduction had not occurred in 1964, the total production of feed grains in that year would have been less than 3 percent larger than it was.

Recalling what was said previously about the futility of acreage controls and diversion, this feed grain program should be branded as an expensive failure on any other score than its ability to put large amounts of money into the hands of producers.

It has been argued that support of feed grain prices also supports the livestock and livestock product industries. "Cheap feed means cheap livestock" is a slogan sometimes quoted to justify this position. Important as feed is in the total costs of producing livestock and livestock products, there are other costs that also set some kind of a natural boundary for the profitable production and sale of these derived products.

Here again, making feed "expensive" in order to bolster livestock commodity prices is no way to expand and hold markets. To the extent that some of these commodities are regarded as semiluxuries they are in direct competition for the consumer's dollar with other spending outlets. Some of the livestock commodities are having too much trouble holding their own against various notions about health and diet. They cannot afford further alienation of consumers by programs to implement desires about how much higher prices "ought to be."

PERIL FOR COTTON

It is clear by now that Government cotton programs have inflicted grave damage upon the entire cotton industry and the related cotton economy. The damage can be repaired only by facing the problem squarely and dealing effectively with its causes.

If the problem seems insoluble it is because too many for too long have looked for miracle solutions, or hoped that in time the problem would go away, or have dealt with it piecemeal in the vain hope that at some time in the future solutions would be easier.

The only prospect for a viable cotton industry in this country is to produce a quantity and quality of cotton that will sell at a price that will beat the competition at home and abroad. If cotton producers cannot meet this challenge at prices that earn them returns with which they are satisfied in comparison to the earnings from other endeavors or enterprises, then cotton production in this country is doomed to shrivel, if not to become extinct.

Taxpayers will not go on indefinitely heavily subsidizing the production of cotton that cannot be sold without heavy public loss. One way or another, many thousands of today's cotton growers will be forced out of cotton. There is nothing feasible that Government can do to prevent this.

These growers are in large part the victims of the folly of Government cotton programs. For this reason Government should provide a reasonable measure of assistance to them to minimize the problems they will face in adjusting to the necessary and inevitable.

The proposal to cut acreage, as already discussed, will not work. One has only to look at the record and the trends to see why.

The U.S. Department of Agriculture's calculations of yield trends in cotton continue upward. The average compound rate of increase for the last 10 years has been 5 percent.

Projecting this same rate to 1970, only a short 5 years away, shows an average U.S. yield of 700 pounds. To produce 15 million bales at this yield would then require an allotment resulting in less than 11 million acres, contrasting with the 14 million acres harvested in 1964.

We recommend and suggest to the committee for consideration the adoption of a bold, positive approach to the cotton dilemma. It calls for complete withdrawal of the Government from the cotton production and marketing economy.

Only pressure on producer prices will lead to constructive production and cost adjustments affording hopeful prospects for the cotton industry. Only decisions by growers themselves on how much to plant and how to produce it can free the cotton economy from its present dilemma.

We, therefore, propose the prompt termination of all Government efforts to raise or support cotton producer incomes. This calls for an end of price supports at or above market prices determined in competitive conditions. It requires the termination of all acreage allotments and/or marketing quotas. It means the end of all efforts to make cotton worth one price to producers and another price to users.

To cushion the impact of this drastic approach we propose that the Government buy back from producers their allotted production. This would be by the purchase of a "quit claim" to any further Government programs or help. It is proposed that these allotments be purchased on the basis of, say, 24 cents per pound of normal yield from the allotted acreage. Thereafter there would be no assistance, and the act authorizing this program must bind the Government against any further assistance.

This "buy back" to each cotton producer is justified on the basis that Federal Government cotton programs have fostered an investment in, and artificial capitalization of the farm resources of producers on the basis of the price and income expectations which cotton programs have generated. Buying back the allotments is thus a compensation to them for capital losses that will follow a return to competitively market-priced cotton.

Under this buy-back a producer, for example, with a 20-acre allotment and 500-pound normal yield, would receive \$2,400 for surrender of his allotment and thereafter would produce and market cotton for its worth in the market. The producer with a 5-acre allotment and normal yield of 400 pounds would be paid \$480.

This kind of direct and realistic settlement of the cotton dilemma would have to be a one-time shot and a clean break away from all other programs. It cannot be done on an optional or voluntary basis, at the choice of the producer, or of anyone else. The cotton economy simply cannot survive half free and half slave to Government programs.

The total cost of buying back all allotments in this way would be a staggering sum, perhaps as much as \$1.8 billion. But this would be the one-time price paid to return cotton to an economically sound basis. We think this cost will be less than the total costs of continuing present programs for just the next few years.

Under the rigors of a free cotton production economy for growers there will be some producers, both large and small, who cannot hope to survive in competitive production. The second part of our proposal is to provide transitional assistance to such producers who elect to withdraw entirely from cotton production in favor of other farm enterprises or of alternative means of livelihood.

For such adjustment the producer who has decided to quite cotton would elect to do so in advance of planting in any year. He would agree thereafter, and bind himself accordingly, never to produce cotton on any land he owns, leases, or in which he shares management or control. Nor would cotton be produced that year on his land by any producer.

In one-time compensation for his permanent retirement from cotton production he would receive payment in kind or its equivalent, from Commodity Credit Corporation, cotton stocks equal to his allotment times normal yield times, say, 24 cents. The retiring producer's payment in kind (or the conversion equivalent) would thus be in addition to the price for surrender of his allotment. This option would need to be limited in duration, say for 5 years from the date of enactment.

This part of the program would permit the constructive use of Government-held stocks of cotton to encourage and assist adjustment out of cotton. It would thus substitute Government stocks for the crop the retiring grower would otherwise produce in the years of his retirement.

This provision, we believe, would be extremely constructive and important to growers in lower yielding areas who might find that they are unable to survive on cotton. But it could also be helpful to any grower who is at a relative or comparative disadvantage in producing cotton.

THE PROBLEMS OF SMALL PRODUCERS

There are important cotton areas where allotments are small and the cotton income is correspondingly small. In half of the principal cotton States in 1961 the farms with allotments of 10 acres or less were from 50 to 80 percent of the total allotments. In 10 States from 50 to 90 percent of the allotments were 15 acres or less. In 1964 there were many farms with 15-acre allotments which had a return of only \$900 from cotton after paying direct costs and allowing for machinery depreciation. At the same time, the gross receipts from cotton accounted for 60 to 70 percent of their gross cash intake.

But there are small allotments in every cotton State. In 13 of the 14 major cotton States one-third or more of the allotment farms had allotments of 15 acres or less. Nationally in 1961 more than 80 percent of all farms having allotments were allotted less than 30 acres.

The size of cotton operations are a major factor in the adjustment problems. But not all so-called cotton farms are hopelessly unprofitable, nor are all larger operations bonanzas. There are well-known regional or geographic differences in concentration that make the political aspects of the cotton dilemma more difficult to deal with.

No proposal as drastic as ours to go directly to competitive pricing of cotton among producers can be seriously made without consideration of the initial impact on the various cotton areas and types of producers. This needs to be made in terms of costs of production, of returns from alternate enterprises, and of the ability to withstand the initial shock wave.

The following table gives an example of some differences that have prevailed recently on these points. It is based on work of the Economic Research Service, USDA:

[Amounts in cents]

Farm type	(1) 1963 returns from lint and seed, per pound lint	(2) Costs- direct and machine depreciation 1963, per pound lint	(3) 1963 returns above costs (in col. 2)	(4) 1963 returns (col. 1) adjusted to 24 cents national average per pound lint	(5) Returns above 24 cents adjusted in (4)	(6) Area price of lint— basis 24 cents national average	(7) Price for lint needed to give returns equal to next best alterna- tive enterprise (1963)
Cotton: Southern Piedmont—	37.58	26.34	11.24	28.84	2.50	25.9	29.2
Mississippi Delta—large-scale	37.64	18.12	19.52	28.89	10.77	25.5	21.5
cotton—	35.10	21.80	13.30	26.94	5.14	23.6	28.2
Texas: Black Prairie—							
Texas High Plains:							
Non-irrigated—	34.25	14.04	20.12	26.29	12.25	23.3	14.8
Irrigated—	34.26	15.13	19.13	26.29	11.16	23.3	17.9
Cotton-general: San Joaquin	39.10	19.00	20.10	30.01	11.01	27.0	22.2
Valley, Calif.—							
Peanut-cotton: Southern							
Coastal Plains—	36.20	27.10	9.10	27.78	.68	24.9	26.1

Source: Based on "Costs and Returns—Commercial Cotton Farms—1963," USDA Economic Research Service, FCR-20, May 1964.

Assuming a free market, national average producer price of 24 cents, with the 1963 relationships that existed between areas, the following conclusions are suggested by the table:

(1) Under the initial impact of the freed cotton economy the direct cost and machinery depreciation would be covered in all seven types (col. 4 minus col. 2);

(2) The returns per pound of lint cotton above these costs (col. 5) would be sufficiently low in the Southern Piedmont, Texas Black Prairie, and Peanut-cotton: Southern Coastal Plains to encourage many producers to retire from cotton production;

(3) The lint price needed to give returns equal to the next best alternative enterprise, based on 1963 relationships (col. 7) suggests that three types would find it advantageous to shift from cotton to their next best alternative enterprise. These are the same three types mentioned above in (2). The Mississippi Delta large-scale cotton, Texas High Plains, both nonirrigated and irrigated, and the cotton-general farms of the San Joaquin Valley, Calif., would still find it advantageous to stay in cotton rather than shift to other enterprises.

These are only the initial impacts of the change. We believe that a free-cotton economy can and will respond with the vitality and ingenuity with which American farmers are blessed. We believe that the proposals we make will encourage a rapid adjustment to a healthy cotton economy. These adjustments will be of three kinds:

First, the program will encourage the speedy retirement from cotton of those too small—or too ill-equipped to survive in the competitive production of upland cotton. Some of them will reorganize their farm operations and shift to more profitable enterprises. Others will move from farming to other employment where there are growing opportunities or to outright retirement.

Second, the market price will intensify the profit motive to producers, inducing them to adopt cost-cutting management practices and techniques.

Third, because prices influence costs of production, especially on such capital items as land and machinery, producers will be disciplined to reduce and keep in line their fixed costs in scale with the income to be earned from cotton.

We believe that nothing short of the drastic measures we propose will save the cotton industry in our country. If it is to survive, the industry can no longer afford to be subjected to the unsound and unrealistic programs that have led it so close to disaster.

IN SUMMARY

After many years of efforts to achieve a satisfactory adjustment in agriculture, programs have become increasingly complicated and have more and more distorted the farm economy. They have had unintended but destructive effects on the marketing and processing institutions and their functions. The costs of these programs have become an unwanted burden to the taxpayer and an embarrassment to their defenders. Farmers themselves are increasingly weary of the web of controls and regulations in which the programs entangle them.

A POSITIVE APPROACH—ADJUSTMENT TO MARKETS

Therefore, a fresh and positive approach is needed. Programs should work with market forces and not try to balk them. We need to find out what real markets will pay for food and feed grains and fibers. We need also to learn what the real costs of production are so that commodities can be produced without subsidy, and without the confusion and deception about costs that have resulted from the heavy direct hand of Government.

Farm program apologists and their sympathizers have for too long hypnotized themselves with the notion that a return to market guidance of production and consumption would bring all of agriculture and the whole of the economy tumbling down. If there is such a risk, it is one we need not take.

We urge the return to market pricing and market handling of commodities. We recommend the termination of price support, purchase and loan programs, and all related activities to fix commodity prices. This includes the elimination of acreage allotments and marketing quotas and the related devices aimed at managing output.

It is not desirable or necessary to push the whole problem over the cliff, and along with it the farmers involved. Adjustment to freer markets will be difficult for many producers. Some of them have paid prices for land and other resources capitalizing expected benefits from Government programs. It would not be fair to impose capital losses on those so exposed.

In addition to the special cotton program, we recommend for all other supported commodities a transitional program that provides direct payments in the amount of the difference between market prices and a reasonable standard of protection during the adjustments to markets. Such a standard should not be above price levels in current programs. The payments should be gradually

reduced over a specified period of years so that farmers will know how much transitional help they will get in making adjustments and when they must be prepared to live fully with market determined production, consumption and prices.

These payments should be based on present historical bases or allotments. They should not be expanded nor readjusted. Nor should limitations be placed on eligibility for the payments because of size or scale of operation. The adjustment problems of producers may very well be just as great or greater for large-volume producers as for others.

It needs to be emphasized that during the transition period some part of the direct payments could have the effect of subsidizing production, at least in the first part of the period. But this program will afford a sharp and clear signal to each producer of the distinction between market prices and other returns. Any such subsidy effect will diminish as the payments taper off.

We urge this payments approach because it will accomplish two urgently needed reforms. It will restore important segments of American agriculture to a healthier economic condition. Farmers will have better prospects for growth and strength in the future because their vitality will come from adjusting to real conditions, and not to distorted and misleading guides.

The second needed reform is to return to the market organizations, institutions and agencies those marketing functions which experience, high skill and special knowledge equip them to perform—functions which they must perform successfully or perish. Their success promotes the effectiveness and welfare of the whole economy, including farmers.

Mr. WOODWORTH. I have a very brief statement which summarizes it, Senator Ellender, and then if it raises any questions we will do our best.

Our statement is organized around seven major points.

In the first part we deal with and reject the concept of parity as fallacious, and pursuit of it damages the capacity of our country to re-adjust itself to new needs, as it is continually required to do.

Trying to achieve parity of income for the farm industry invites and encourages every other industry that considers itself substandard in terms of the national average for all industry to come to the Congress to have parity of income arranged for it.

There are wide differences between the incomes of individual industries and the national average for all industries. There are real and compelling reasons for these differences. They will persist as long as society is free and varied.

The taxpaying public will, we believe, support some public outlays to aid farmers in adjusting to a rapidly changing technology. But it will not accept indefinitely the burdens required to achieve for farmers as a whole a parity of income which agriculture has never known, nor an artificially managed income which, if achieved, can only be done at the expense of heavy burdens on the taxpayer and consumer, and by imposing unbearable restraints on farmers.

Second, our studies show that, during the last decade at least, commodity programs have not helped farm income. Rises in total receipts from sales of commodities have been substantial but the outlays for production have increased even more. Any benefits from the commodity programs have thus subsidized production. There have been benefits to income from the direct payments made to farmers under several programs. These now amount to nearly one-third the income from commodity sales.

Third, attempts to manage farm production by acreage allotments or acreage diversions have proved futile. Acreages have been reduced but production has not. Land area is of decreasing importance in determining production. The use of modern technology has made an acre of soil more and more a simple workshop in which there is plenty

of room to expand production. For this reason acreage diversion can be expected to reduce production only if backed up by restrictive measures to limit the use of other resources, and tightly policed against the farmer's drive to maximize his output.

WHEAT AND RICE

Fourth, the only promising future for most commodities is to expand markets if the farm economy is to prosper. The wheat and rice certificate plans and proposals commit these commodities to a program that restricts markets. We believe their adoption would only provide greater trouble ahead.

FEED GRAINS

Fifth, the costly 4-year feed grain program has failed to achieve its purposes. Total feed grain acreages have been reduced, but total production has not. It has stimulated increased yields in the feed grains covered. Carryover stocks have been reduced, but for other reasons outside the program as such.

COTTON

Sixth, cotton is in very real peril because we have too long put off facing squarely the magnitude of the cotton problems, and the adjustments that must be made if the industry is to survive. We propose a two-part program that would (1) terminate Government intervention in prices, stocks, allotments and controls and buy out from each producer his allotment; and (2) use present Government stocks of cotton to pay 24 cents per pound to each producer wishing not to compete in producing market-priced cotton in exchange for his agreement to retire permanently from production. Thus the Government stocks would be substituted for his production in the year he retires. Without a drastic program of this character the prospects for cotton look very dark, indeed.

The CHAIRMAN. What will become of the land that is not planted in cotton, what would you do with it?

Mr. WOODWORTH. Mr. Camp, do you want to answer that?

Mr. CAMP. He may choose other commodities if he has an opportunity, or he may choose to quit farming.

The CHAIRMAN. Quit farming?

Mr. CAMP. I say he may, or he may choose other commodities.

The CHAIRMAN. How would that affect the economy of the community if he would choose not to plant?

Mr. CAMP. Which phase of it are you talking about?

The CHAIRMAN. A farming community is sustained by the purchases made by the farmers of machinery and from the groceryman, and the farmers of the Nation are the biggest purchasers of any segment of our society.

Mr. CAMP. I am making that same statement every day. That is right.

The CHAIRMAN. But you put them out of business by buying an allotment——

Mr. CAMP. I don't want to put anybody out of business unless they wish to go out of business, never.

The CHAIRMAN. If you were to buy all the cotton allotments of half the farmers, I presume that would mean that there would be no more cotton grown.

Mr. CAMP. By those particular farmers, maybe, if they chose to quit cotton. That would be up to them. I am a cottongrower. I grew up on a little patch of cotton.

The CHAIRMAN. What are you doing now?

Mr. CAMP. If crops don't sell, I don't eat. I am a farmer.

The CHAIRMAN. How big a farm have you?

Mr. CAMP. We have several acres. We farm in South Carolina.

The CHAIRMAN. Is that your sole source of revenue?

Mr. CAMP. You bet you. We are farmers.

The CHAIRMAN. What do you grow?

Mr. CAMP. We grow cotton, potatoes, sugarbeets, some other crops, oranges and grapes, diversified—cattle.

This is nothing new. This is not a proposal that would be something new in the Southeast at all, where most of my kinfolks are, because they are going out, being squeezed out, being forced out. And they are getting nothing for it.

The CHAIRMAN. That has been suggested to us, but without explanation. I thought I would give you a chance to explain what would happen.

Proceed.

GENERAL

Mr. WOODWORTH. Finally, we suggest that a fresh, positive approach to farm problems is needed and should be promptly made. This approach should foster adjustments to markets, economic forces and trends, rather than trying to swim upstream against them. Under such a program, price supports and associated controls would be terminated. Prices, consumption, and production would be determined by market forces.

The CHAIRMAN. Supply and demand?

Mr. WOODWORTH. Yes, sir.

The CHAIRMAN. You would want to do that—in other words, you would want to put the farmer out on the range, would that be about what would happen?

Mr. WOODWORTH. No.

The CHAIRMAN. Just let him plant what he wants and let the supply and demand——

Mr. WOODWORTH. Eventually, yes.

The CHAIRMAN. When you say eventually, when would you start?

Mr. WOODWORTH. Let me complete this. I am nearly through. And then we can take that part out of the full text as we go into more detail.

The CHAIRMAN. Very well.

Mr. WOODWORTH. In place of present programs, direct payments would be made to producers to provide aid in adjusting to competitive market conditions. Such payments would be reduced gradually and annually over a predetermined period, so that farmers will know in advance how much transitional help to expect and when they must be prepared to live fully with market forces.

The CHAIRMAN. Would you prepare them as to wage increases? There is a drive now to raise the wages, which would necessarily raise the costs of the farmer. What would you do to stop that?

Mr. WOODWORTH. I don't think any farmer could stop it any better than anyone else could stop it. Presumably they could try as others would. But this would have to be as it is with any businessman. It would be something that the farmer would have to take into consideration in either continuing to be a farmer or seeking some other operation.

The CHAIRMAN. I disagree with you, because you have a lot of people now who are entirely dependent on the farmer for their existence, a lot of industry of all kinds.

Mr. WOODWORTH. Correct.

The CHAIRMAN. And you do violence to them, you do violence to those businesses.

Mr. CAMP. May I speak to that?

I don't see where it would terminate any of this at all, except that it would shift some of the—of course, some of it is grown—probably just as water runs down the hill, these crops are ultimately going to shift or flow to those places in America where they can be grown and marketed to best advantage. That is going to happen. And if it is back in Carolina, or Louisiana or Mississippi or Arizona, that is where it is going to be, ultimately, in a free society, not if we do it like they do in Russia and tell them they have got to do this and that.

The CHAIRMAN. They have got to do this, that or the other, or they don't have any food as in Russia, is that what you are saying?

Mr. CAMP. No, sir.

The CHAIRMAN. Were you here this morning?

Mr. CAMP. No. I am sorry, I would have liked to have been.

The CHAIRMAN. You would have heard a good dissertation—and I invite you to read it—by just a plain farmer from my State.

Mr. CAMP. Well, that is all I am, a farmer. I may not be a good one, but I make my living at it, and all my family.

The CHAIRMAN. Have you benefited by any of the support programs?

Mr. CAMP. The industry as a whole temporarily back at the beginning benefited. And as you remember, I was Assistant Director of the Cotton Division in triple A. But we wrote that program, as you know, for an emergency thing to go 3 or 4 years maximum.

The CHAIRMAN. When was that?

Mr. CAMP. 1933. Cully Cobb was Director, and I was Assistant Director.

The CHAIRMAN. You mean the old NRA that was declared unconstitutional?

Mr. CAMP. No, I am talking about the farm program.

The CHAIRMAN. The first one which was enacted in 1934?

Mr. CAMP. 1933.

The CHAIRMAN. That is the one that was declared unconstitutional, in January 1936.

Mr. CAMP. That is right.

The CHAIRMAN. And it was the year that I was elected, 1936, January 1936.

Mr. CAMP. I was the Assistant Director of the Cotton Division.

The CHAIRMAN. And when you say that the farm program was drafted on a temporary basis, you mean the one that was declared unconstitutional?

Mr. CAMP. No, I am saying that many of the people who had to do with the drafting of the cotton program originally knew something had to be done, they never contemplated—I am talking about cotton people—never contemplated that permanently there would be a Government program. I was there, I was Assistant Director.

The CHAIRMAN. I offered it back in 1936, and I can assure you that it wasn't on a temporary basis.

Mr. CAMP. Did you intend that it be permanent?

The CHAIRMAN. Sure. Because every segment of our society was being protected in some way or another. I fostered the Fair Labor Standards Act to see that we got—we did away with the sweat shops.

And then you have got all the people in the northeast, they were highly protected at that time by tariffs.

Now, if you want to put everybody on the same basis, take off all the tariffs and take off all the laws that protect labor and other segments of our society, the farm will not ask for any assistance, and I wouldn't give them any assistance if that were the case.

Mr. CAMP. I understand.

The CHAIRMAN. But when you protect the manufacturer, when you protect labor and all that, I think when you leave the farmer out on the green himself, he would soon die on the vine. It would affect our economy so tremendously that we might lose our way of life. It is just that serious, in my opinion.

Mr. CAMP. I am one of them.

The CHAIRMAN. I am, too. And I have been wrestling with this thing for 28½ years. And I have been on this committee serving for 28½ years now. And every law that has been on the statute books pertaining to farming I had a little to do with it. Some of it was bad, probably, and some other was not right, or did not work as we intended because of maladministration.

But I have always contended that the farmers of our Nation ask for no quarter if you start everyone from the same starting point, do not give advantages to anybody.

Now, what do you think would become of your shoe manufacturers in the northeastern part of this country, and the cotton manufacturer and the wool manufacturer if you did not protect them with some kind of tariff?

I would like to buy six-bit shoes, and I guess you would, too. But the moment you stop protecting anybody and leave the man upon whom you depend for your livelihood out by himself, I do not see how we can get along.

Now, if you have any programs—I have heard this one before, this is about the sixth or seventh time I have heard that same suggestion that you are making now——

Mr. WOODWORTH. You heard it from me, Senator. I have appeared before your committee, I think, a year ago approximately. And there we gave you the details on it.

The CHAIRMAN. It was done by others, but maybe not as explicit as yours.

I would like to see the chamber of commerce give more attention to farming, or give as much attention to farming and the farmer as they do the manufacturer and the producer of goods from farm products. If you did that, you would find out that you would want to protect the goose that lays the golden egg.

Mr. WOODWORTH. I think you will find that we have a very high regard for the farmer.

The CHAIRMAN. Not the way you say there. If you want to let him out in the pasture and let everybody else be protected, why, in my opinion we soon will be unable to produce.

Mr. WOODWORTH. I think we have a difference of opinion there.

Mr. CAMP. Of course a lot of our farm commodities aren't protected.

The CHAIRMAN. Name one.

Mr. CAMP. Potatoes.

The CHAIRMAN. Vegetables?

Mr. CAMP. Potatoes.

The CHAIRMAN. The vegetable crop?

Mr. CAMP. Call it what you will—potatoes.

The CHAIRMAN. You mean Irish potatoes?

Mr. CAMP. Yes.

The CHAIRMAN. I know they are not protected. We tried that and could not get production and it cost the taxpayer \$500 million. And I am the one who stopped that.

Mr. CAMP. And they wrote a law that said—saying that you couldn't have protection, and we repealed that.

The CHAIRMAN. I am one who believes the price support should not be given to any farmer who refuses to curtail his acreage so that production would be in keeping with our requirements—

Mr. CAMP. Citrus is not.

The CHAIRMAN. Citrus is something that cannot be grown all over the country—Florida, California, and Texas are the only places where you can really grow it and make a living at it.

Mr. CAMP. Watermelons are not protected.

The CHAIRMAN. Watermelons. Beans? Do you think they could be?

Mr. CAMP. No.

The CHAIRMAN. Of course they could not. And that was a theory—

Mr. CAMP. That is what I am saying.

The CHAIRMAN. That was the theory on which we enacted the Triple A Act of 1938. And that is why we took five basic commodities and tried to control production of these basic commodities in the hope that others could take care of themselves. That is the reason why we took those five basic commodities. It was thought that we could curtail the production of them. But the only one in which we had no compliance was corn, as you know. The corn people, of course, never had marketing quotas or penalties imposed on them. Today they are permitted to grow corn without marketing quotas. The program has been very expensive, as I pointed out on many occasions, the reason being that there is no acreage controls on the production of corn. And that is why I believe that that program has been too expensive.

COTTON

Now, take the case of cotton. Why are we in trouble right now? It is because a lot of the industries, your textile industries, for instance, came up here with a big lobby last year, and others, to promote a program whereby the taxpayers absorbed the entire cost of cotton between world prices and the support price.

Mr. CAMP. There is another reason why some of the cotton States are in trouble, in quality. We are producing in quantity to put into the Government loans, Senator. And you and I are familiar with this.

The CHAIRMAN. We have changed that some.

Mr. CAMP. Changed it some——

The CHAIRMAN. Of course we have. You know we changed the base grade from seven-eighths-inch cotton, we changed that to the average on the crop and now it is almost up to 1 inch.

Mr. CAMP. That is one thing. But almost all the cotton, in several other States, including my South Carolina, is going into loan, going for the loan. This isn't something you like, it is something that is real. And I grow cotton some other places where none of it goes into the loan. Most of my cotton does not go into the loan. But all of it that I grow in some of the States goes into the loan because of quality. The breeding has been done for quantity instead of quality.

The Chairman. Where do you grow that cotton for quality, not in South Carolina?

Mr. CAMP. Out in some of the Western States, in California.

The CHAIRMAN. And you grow some in Mexico?

Mr. CAMP. California. But I am not pleading for California, I am pleading for South Carolina, and Georgia, as much as anyone, because that is where my people are.

The CHAIRMAN. I think I remember talking to you at a dinner party.

Mr. CAMP. Yes.

But this thing of quantity, Senator—we wrote a law out there that you can't grow anything but the one variety and keep that bred to quality. And something has to be done in the South in addition to fighting the boll weevil, and so on, something has got to be done, qualitywise, or else. It is just as simple as that. It isn't my statement alone, you have heard it many times. It is real.

GENERAL

The CHAIRMAN. What I am saying is that this program submitted by the chamber of commerce, I don't believe can be made to work unless, as I said, all segments of our economic society start from the same place here, with no protection of any kind. You start a program of that kind and see what is going to happen to your economy.

You may proceed, sir.

Mr. CAMP. I think it would work.

Mr. WOODWORTH. I think it would work. I think that the safeguard in the thing is that you have a target price to which you approach gradually, not precipitiously. And you can pretty well determine as you progress whether it is going to work or not.

The CHAIRMAN. Suppose it doesn't work, what protection do you have?

Mr. WOODWORTH. If it doesn't work you are back talking about controls again, presumably. I choose to believe, we choose to believe that it will work.

As to food grains, particularly as to corn, you are fairly close to the point right now where it would work.

The CHAIRMAN. Where it would work?

FEED GRAINS

Mr. WOODWORTH. Or where it would work. It would be a relatively short time before you could reach this goal, because corn today is practically at the world price in the marketplace.

The CHAIRMAN. Since that is true, would you want to deny the producers any support?

Mr. WOODWORTH. No. The chamber has never taken the position that there should be no support. We believed always that there should be some support against low prices. We haven't named a figure, but out of the air say 50 percent of parity, some such figure.

Mr. CAMP. To act as a fire insurance program instead of an incentive for growing.

Mr. WOODWORTH. That is right, a real floor.

The CHAIRMAN. And we are told here that 50 percent of parity would be about 80-cent corn. And we have a law on the statute books now under which—if we don't renew this temporary law that we enacted in 1961 and renewed for 4 years—the corn price would go to 80 cents per bushel. We have a provision in the law which states that the loan rate should be such as would not increase the surplus now on hand, but it cannot be less than 50 percent of parity.

So that makes what the farmer would get only 80 cents per bushel. We are told by experts that even at 80 cents more corn would be produced. And we wouldn't know what to do with this.

Now, you disagree with that?

Mr. WOODWORTH. Over a period of time I do, yes. Because I think these adjustments take place.

The CHAIRMAN. Presume that all were broke, then what? Trying to catch up. That is the idea of the farmer, when the prices are low, I mean when a support price is low, and there is no restriction on planting, the chances are that he would grow in large volume in the hope of making some money out of it. Take, for instance, my brother's farm—he has enough equipment now to grow 400 acres of sugarcane as well as he can 300 acres. Things have changed. With all that equipment there—I don't know what would happen. I would hesitate to prophesy.

Mr. WOODWORTH. If it were profitable for him to produce it, wouldn't he, and shouldn't he? If it were not profitable, I would assume that he would either curtail his production, or do what people in other lines of businesses have to do under the circumstances.

Mr. CAMP. Senator, what did happen to the potato growers, whose prices were terrible, and so on, and surpluses, and they passed a law that there couldn't be any Government program. What did the potato growers do?

The CHAIRMAN. You picked potatoes.

Mr. CAMP. No, I grow potatoes.

The CHAIRMAN. I understand. But potatoes were 18 cents a pound this year.

Mr. CAMP. Yes. But for 2 years straight they were half price.

The CHAIRMAN. I understand. But there is no protection for potatoes except under our section 32 funds, and we bought some potatoes.

Mr. CAMP. And in some storage districts. Where are they?

The CHAIRMAN. You grow at a different period. Yours is more like a vegetable.

Mr. CAMP. I grow some of Dr. Miller's seed, too. But they are not protected. And they are getting along all right.

The CHAIRMAN. I know that. But the only thing protected here is the basics, to amount to anything, the rest are not.

Mr. CAMP. But what is different about that? I am merely asking for my information, what is really different from the other?

The CHAIRMAN. Well, there are basic to the farm economy.

You take, for instance, the interdependence of feed and livestock. In order for us to have a fair price for beef, for poultry, for hogs, it would seem to me that we must have a fair price for the corn and the feed grains. If feed grain prices drop, the more livestock you are going to grow, and the lower the price would be. That has been the history of it.

You have been in the Department of Agriculture. And I am sure you know that to be the contention of the economists there. I have no doubt in my own mind but that the fact that we once had a program on corn that was workable to some extent, that had the tendency of stabilizing the price of meat.

But here lately we have been engaged in programs on corn which have encouraged the growth of corn to sell to Uncle Sam and not to sell to feeders.

Mr. CAMP. That is exactly what I am arguing.

The CHAIRMAN. I know. That is one of the commodities.

But that hasn't been the case, I believe, as to wheat, nor has it been the case as to cotton.

WHEAT

Mr. WOODWORTH. I think it was the case as to wheat, Senator, not in the recent past, but some years ago, when we were producing the very large surpluses of Hard Winter wheat.

The CHAIRMAN. I will tell you the trouble with wheat. It took me 6 years to correct it. In 1938 when the act was put on the statute books somebody put in the law a provision which denied the Secretary of Agriculture the power to allocate less than 55 million acres.

When that provision was put on the statute books, production of wheat was 11.4 bushels per acre, and now it is 26, but until recently the minimum acreage was still 55 million acres.

The Secretary of Agriculture was unable to stop it.

It took us a long time—I believe that that was the source of our trouble with wheat. If we had put wheat and corn, as well as cotton under the same laws, that is, real acreage control, and had the law so administered that the farmers would produce in keeping with requirements, we wouldn't be in this trouble, in my opinion.

Mr. WOODWORTH. I would agree with you that one of the errors of the past was what you speak of, there was no division among areas; in other words, it was across the board. But we have certain areas of production in variety of wheat for which there has been a broad and continuing demand.

The CHAIRMAN. That is your Durum wheat.

Mr. WOODWORTH. Durum and Hard Spring.

The CHAIRMAN. Congress permitted more Durum to be grown not only here but in California. Now we have a surplus of it. That is where I believe we acted unwisely.

Mr. WOODWORTH. That was to overcome a rather critical situation at the time.

The CHAIRMAN. But you try to scratch it off now.

Mr. WOODWORTH. I realize you don't turn the faucet off quickly.

But there was a new strain of rust that knocked out the Durum crop.

What I am talking about, Senator, is that the same yardstick applied to an area that was already in surplus production. That applied to an area that was not in surplus production and they both had to take comparable cuts. Now, that was unwise. The larger cuts had to be made in the area where a variety of wheat was being produced, for which there was no ready commerce demand, and it wound up in Uncle Sam's fireless cookers.

The CHAIRMAN. We have a lot of wheat produced today that is very difficult to dispose of, the same as you have in cotton.

But I think all in all, although the programs have been very expensive, there are no people on earth who get food in larger quantities and cheaper than the people of this country.

Mr. WOODWORTH. Or finer quality.

The CHAIRMAN. That is right. And something that amazes me is to hear people get up and talk about the great expenses of this program to the taxpayer. Now, I don't deny that the expenses have been great. As I remember the figures now, through last year the cost of the program from January of 1933, or March of 1933, on through December of 1963—those were the last figures that I can recall—the entire cost of the program was about \$41 billion. But when we converted from war to peace after World War II, industry got over \$45 billion. And you did not hear a chirp out of that. That is what happened.

Anything further?

COTTON

Mr. GARVER. Senator Ellender, we have never, I am sure you will recall, complained about the cost of the farm program. Others have. Our own criticism has been that we were not getting what we paid for. We put a lot of money this year into the cotton program, and it is going to cost \$900 million, according to most people. And what have we got to show for it? Just a worse cotton problem than we had before.

The CHAIRMAN. That is right. Just like the corn problem, I fought it all the way. That was the first time I was ever licked on this committee, the first time in 28 years, just this last year, I recommended against this cotton program, I said what would happen. Read my speech and the record that was made here last week and you will see

that the senior Senator from Louisiana was correct, except that it was a little worse than was anticipated.

And, of course, I find this also, that when you mix a little politics in the administration of any farm program you get in trouble.

Mr. CAMP. Senator, I want to make one other statement.

The CHAIRMAN. Proceed.

Mr. CAMP. I do grow cotton in more than one State. And I happen to be one that plead long and hard for the reallocation thing, even though I live in California and all of them out there were against it. They have used it some, too. But it has been a great benefit to the growers all through the Southeastern States, and should be kept, if programs are kept, that is a good feature.

I would like to see them, if it is going to be kept on some kind of a basis like that, if they want to sell it, they can preferably sell it and get rid of it, get those fellows some money as of now.

You are talking about 2 acres or a 10-acre man, he deserves to get something. And our proposal does give him something.

TRANSFER OF ALLOTMENTS

The CHAIRMAN. In the pending bill there is a provision for the sale of those allotments, title VI.

Mr. CAMP. I am for that.

COTTON

And one other feature. If programs continue as some of them have been, this compensatory payment that so many people fight about, I fuss with my farm bureau friends, I am a member of the farm bureau in several States, I fuss with them about it. But the only cotton program that has worked smoothly, that was easily administered, was the one that we had for 2 years, the cotton adjustment payment. And I had charge of it. I mean it was under our supervision. And we never had any trouble.

The CHAIRMAN. What year was that?

Mr. CAMP. That was in 1934 and 1935, I guess it was, CAP, cotton adjustment program, and we set it on the basis of 10 spot markets, the average price. And then the Government gave them a check.

But this was no scaling down.

The CHAIRMAN. That was the law that was declared unconstitutional, because we imposed a tax to pay that.

Mr. CAMP. That is right, that was a processing tax. But it was easily administered, and very, very fair. But there was no scaling down or up, all growers are treated alike. And if you don't treat all of them alike, you can't work it.

The CHAIRMAN. That wasn't gotten from the Treasury, though, you see.

Mr. CAMP. I know. But I am just saying mechanically that is the only way it can work.

The CHAIRMAN. It may be that the answer is something along that line. But you try to enact something through Congress and see how far you go.

Mr. CAMP. If they try to scale it, it will kill it. I am just saying that is a matter of mechanics.

But what is going to happen now, what is happening, Senator—and unfortunately for the Southeast—is that so much of the cotton acreage—

The CHAIRMAN. We provided for release and reapportionment too late. If we had done that earlier in the game, the chances are that more of it would have been retained in the areas of the South where you could grow cotton economically.

Mr. CAMP. But in the South there are two things you have got to do, or else you are through, Senator. You have got to get rid of the boll weevil, as we did the screw-worm, and get quality. Otherwise you are through. And I am talking about myself.

The CHAIRMAN. Well, we are working on that. We have been working for the past 14 years. I have been on the subcommittee that appropriates money for agriculture, and we have been gradually doing research to make it possible for the cotton farmer to grow cotton cheaper.

Mr. CAMP. I know. I am familiar with that.

The CHAIRMAN. Weeds, and things like that. I agree with you.

Mr. CAMP. The quality is the key to the whole thing.

The CHAIRMAN. But the only trouble is, in growing it in the South you know it is not like California. California and most areas where you get your water by way of subsidy, all you need to do is turn the faucet and turn your water on.

Mr. CAMP. I happen to be the one that put up the money and advocated irrigation throughout the Southeast.

The CHAIRMAN. You are one of the few.

Mr. CAMP. But we have got to do it there if you do it anywhere.

The CHAIRMAN. Anyhow, I believe that the programs we have had on the statute books have been the salvation of not only the farmer, but the consumers here in America.

Mr. CAMP. In parting on cotton, I want to say this. That is my living, is farming. And, Senator, I commend the reading of this seriously by yourself. It has merit.

The CHAIRMAN. It will be put in the record.

Off the record.

(Discussion off the record.)

GENERAL

Mr. CAMP. I want to say to you that the agriculture committee of the U.S. chamber, their fundamental position is for the growers and farmers of America, for agriculture, not for other business, and so on. And when you study what they have come up with, you won't condemn them.

The CHAIRMAN. I am not condemning them at all, except that as I said, if as much attention were given to the farming end and the production end, as is given to manufacturing by the chamber, I think they would see more light, because to me agriculture is the foundation of our economy, and I don't care how you look at it.

Mr. CAMP. It is the foundation of all economies the world over.

The CHAIRMAN. Sure it is.

Mr. WOODWORTH. I can assure you, Senator, that exactly those words are said by the agriculture committee of the chamber to a good

many of its members, because there are mighty few lives that aren't touched in some way by agriculture.

The CHAIRMAN. That is right. I have been living on the farm all my life, I have worked with farmers, and all of that. I actually believe that although we have had bad luck in the administration of many of our programs, that all in all we have been able to educate our farmers on how to produce 3 or 4 times the amount produced before.

Mr. CAMP. The greatest miracle of the century is the farming technique.

The CHAIRMAN. And there is no segment of our society that has made as much progress as has the farmer.

Mr. WOODWORTH. And to quote Mr. Camp, may I say, you haven't seen anything yet, the ability of these people to produce with the technology that is underway now, just the seed grains as an example, and the technology that is forthcoming shortly, that will make all the difference in the world.

Mr. CAMP. But every recommendation from the Agriculture Committee to the directors of the U.S. Chamber during the past 15 years, every recommendation the Agriculture Committee has made has been wholeheartedly endorsed by the 62 members sitting around the table. The other businesses have gone right along. And if you can help the committee in some way, I would guarantee you they are working for the farmers and for agriculture.

The CHAIRMAN. The thing that I take issue with is to more or less let the farmer out to pasture. That is what you do. I do not see any way, I am sincere about this—I have been, as I said, on this committee 28½ years, and unless you give to the farmer some kind of protection in order to equalize him with industry that is protected and labor that is protected—

TRANSFER OF ALLOTMENTS

Mr. CAMP. Senator, we have to look at what is going on. In my area—I grew up—I was champion cottonpicker—and we had 10 in the family, and today we have acquired in connection with that, unfortunately maybe, 26 family farms as they were operated then. And all of these people just got nothing for it, they went away and left their allotment, and so on. And we operate that now with two families, cattle, and so on. But I am telling you what is really happening. And the proposal here is not to do that, it is to pay them for something they may give up.

Mr. WOODWORTH. Senator, we appreciate very much your taking so much time with us.

The CHAIRMAN. The committee will recess until 10 o'clock Monday. (Whereupon, at 3:10 p.m. the committee recessed to reconvene at 10 a.m., Monday, June 28, 1965.)

FOOD AND AGRICULTURE ACT OF 1965

MONDAY, JUNE 28, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room 324, Old Senate Office Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender, Jordan of North Carolina, McGovern, Montoya, Mondale, Aiken, Cooper, Boggs, and Miller.

The CHAIRMAN. The committee will please come to order.

We shall continue our hearings on the various farm bills before us. I understand Senator Burdick desires to make a statement or highlight it.

We will be glad to hear from you, sir.

STATEMENT OF THE HONORABLE QUENTIN N. BURDICK, A U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator BURDICK. Mr. Chairman and members of the committee, I know that you have a good many witnesses this morning, and I ask unanimous consent that my full statement appear in the record as though read, and then from that point on I will highlight it.

WHEAT

Mr. Chairman, members of the committee, I appreciate the opportunity to appear here today in support of a voluntary wheat certificate program such as that proposed by Senator George McGovern, myself and other wheat State Senators in S. 598.

The most important part of this bill is its provision to assure farmers 100 percent of parity for wheat produced for domestic use. Approval of the bill would have the effect of raising the valuation of domestic wheat certificates about 50 cents a bushel above the current 75 cents level. This would mean an estimated \$250 to \$300 million increase in farm income.

This bill would begin to correct the most tragic situation in American agriculture today: substandard income.

Since World War II our country has prospered. Agriculture has not shared in that prosperity. If we compare 1964 with 1947 net farm operator's income dropped from \$19.5 billion to \$12.6 billion, or 35.3 percent. Meanwhile, total U.S. personal income rose from \$262 billion to \$484 billion or 84.7 percent and nonfarm personal income rose from \$235.6 billion to \$464.2 billion or 97 percent. Clearly something has to be done to improve farm income.

The proposals contained in S. 598 are similar to those proposed by the administration. They recognize one fundamental fact about income from wheat farming and that is that it is down to substandard levels and unless a better program is enacted, the trend is likely to continue.

Mr. Chairman, I appeared before this committee in 1964 to testify in favor of a voluntary wheat program similar to the one now in existence. At that time I recalled the wheat referendum of 1963 in which farmers voted to reject the mandatory 1964 program. I predicted because of that vote that wheat prices would drop regardless of any voluntary program Congress would approve.

As you know Congress did approve the voluntary wheat certificate program which prevented a drop in income even more drastic than that which did result. Farm income, however, dropped \$200 million in 1964, an intolerable decline.

The proposal to return to 100 percent of parity for domestically consumed wheat will increase the return to wheat farmers by \$250 million.

Mr. Chairman, it has been suggested that because of that increase of \$250 million, an extension of export certificates on wheat is not necessary. It has been estimated that such an elimination will save taxpayers about \$125 million. But it would also reduce the farmers' real return from the increased domestic certificate to only \$125 million.

If this happens for another year, if farmers continue to receive an insufficient return for their wheat production, the natural trend of this century of fewer farms will be accelerated. The effect of such a rapid transition will be increased unemployment and social costs in our cities, the displacement of rural communities, and a decrease in demand for steel, oil, and other essential farm goods.

Mr. Chairman, this is not necessary and I urge the committee to give serious consideration to either continuing export certificates on wheat or increasing the price support rate on diversion payments. Either of these methods would improve the entire wheat program by allowing the farmer a greater return for his investment.

I would like now to discuss the relevance of a strong farm program to my own State of North Dakota.

Probably in no State in the Nation is it as important that agriculture be healthy as it is in North Dakota, where one-third of the people are farmers and the other two-thirds derive their income from agribusiness.

When agriculture is in trouble in North Dakota, everyone in North Dakota is in trouble. Without farm programs, especially the wheat and feed grain programs, North Dakota will suffer. It is most important that Congress act favorably on the legislation pending before this committee.

During the past 4 years, average net income per farm in North Dakota has been \$362 more per year than it was during the previous 4 years. Farm programs have done their part in creating this extra income that farmers spend on the main streets of North Dakota. They need to be continued and improved.

Wheat is the most important single commodity that North Dakota offers for sale. Wheat accounts for nearly half of farm income.

North Dakota farmers realize the importance of a sound program for wheat. This year they lead the Nation in the percentage of eligible farms enrolled in the wheat program—89 percent. The nearest State to North Dakota in enrollment percentage is Nebraska, with 81 percent, and this compares with the national average of 52 percent.

This 89 percent of eligible farms in North Dakota accounts for 94 percent of the wheat allotment acreage in the State. Kansas is tied with North Dakota in this respect, and their records can be compared with a national average of 84 percent.

This year, 3 percent more farms and 3 percent more acres are enrolled in the present wheat program. For each acre of voluntary diversion last year, North Dakota farmers plan to divert 16 acres this year. They have indicated they will divert 355,612 acres where they diverted 22,146 acres last year.

You can see from these statistics that North Dakota farmers respect the advantages of the program. But it would be even more popular if the farmers could have better income.

The program under consideration here will improve income from wheat.

Increased certificate values for wheat produced for the domestic market will put more money in farmers' pockets. Wheat at 100 percent of parity has long been a dream of North Dakota farmers, and this program will make the dream come true for wheat used for human food on the domestic market.

Increasing farm income through the marketplace will free tax dollars that can be used in a number of other ways. They might be used to make additional diversion more attractive to the farmer through another proposal in this program—removing the limitation on the rate of diversion payment. Increased diversion should also help the wheat farmers of the Nation because production would more nearly match domestic consumption and exports.

It is hoped the program will increase the sales of wheat abroad. Greater export sales will be to the ultimate benefit of all wheat farmers, as well as those of North Dakota.

Passage of this program, which is basically a continuation of the program in effect last year and this, will help North Dakota farmers in their planning. They will have the experience of 2 years' operations when they look ahead to 1966 and later. They are familiar with this program, and what it will do for them. Drastic changes will force them to consider an increased number of unknown factors as they plan how to operate next year and the next.

North Dakota not only leads the Nation in enrollment in the wheat program, it stands at the top of the list in the feed grain program—again attesting to the popularity of the voluntary program.

This year in North Dakota, 80 percent of eligible feed grain farms are enrolled. Nebraska is next in line with 77 percent, and the Nation as a whole has 47 percent.

The acreage enrolled in the program puts North Dakota on top, with 86 percent as compared with 65 percent in the Nation and its competitor for honors, Nebraska, with 85 percent.

North Dakota farmers understand the necessity for diversion from feed grain production, also. Those who signed up plan to divert 32 percent of their base acres—better than 1.7 million acres.

Eight to ten percent of North Dakota's cash receipts come from feed grains, and it is important that the program which has been so successful be continued. The stable feed prices that have resulted from the program have also helped North Dakota's livestock industry, from which comes about a quarter of farming's receipts.

Here, again, a familiar program is to the advantage of farmers when they plan their operations each year. The alternative to continuing this program could cause chaotic conditions in North Dakota. If it were necessary to return to the situation of the 1950's, farmers would be unable to help in the orderly reduction of feed grain stocks. It would force them to increase acreage planted to feed grains; and from that would come lower prices, bigger stocks, less income, and lower livestock prices.

Mr. Chairman, in proposing farm legislation, any sound proposal will take into consideration two primary persons: the farmer and the consumer.

In recent years the consumer has obtained a larger volume of quality foods at less cost than in any other country in any earlier period of history. Nowhere else can the consumer eat as well as inexpensively as in this country.

The farmer on the other hand, the most productive in the history of the world, has suffered far more than he has profited from his productivity. His income is down, each year more of his friends and neighbors are moving away and each day his major concern is whether he will someday also be forced to leave.

Our country owes more than this to the American farmer and I sincerely urge this committee to approve legislation that would improve farm income to a more equitable level.

In short, Mr. Chairman, I appear in support of S. 598 and the legislation which has been spelled out by the administration itself. I appear on behalf of wheat legislation in particular.

I would like to first of all point out the necessity for increased farm income in my State of North Dakota. I have here in my hand a document prepared by the Production Credit Association which, as you know, is the farm credit group in North Dakota and in other States. The document cites 11 classic cases of what has happened to farm income in the last 10, 12, or 14 years. Of these 11, I would like to refer to 3 of them so that I will not take too much time.

Here is farmer E who in 1949 was farming a quarter section of land. His debt at that time was \$3,700. Today it is \$26,143.

The CHAIRMAN. Did he buy more land?

Senator BURDICK. No, sir. In fact actually he is farming less land than in 1949. He had farmed 165 acres in 1949 and 160 acres in 1964.

The CHAIRMAN. That is due to machinery he is using, the cost of machinery?

Senator BURDICK. It is farm costs generally. His debt increased that much in that period of time.

Now, let us take a farmer that has had more acres. Let us take farmer H listed in the Production Credit Report who has a thousand acres. In 1960, only 5 years ago, he had a \$9,000 debt. Today he is farming 1,320, 320 more acres, but his debt has risen in a 5-year period to \$95,000.

Let us take another one. Here is a 480-acre illustration. In 1949 he was clear of debts. Today farming the same number of acres, 480, he has a debt of \$19,000.

This is just an indication of what is happening in part of rural America.

Take another example. Between 1947 and 1964 the net farm income dropped from \$19.5 to \$12.6 billion or a decline of 35 percent reflecting higher costs and lower prices.

Meanwhile the nonfarmers' national income rose from \$235.6 to \$464.2 billion, or a rise of 97 percent. So here in the rural areas you have a decline in farm income, and in the urban areas you have an increase. Clearly something has to be done to balance this.

We know the attitude of the Bureau of the Budget. There is only one way, in view of the restrictions to be placed upon the amount of money to be spent to support farm programs. The only avenue left to us to make this adjustment and to make some equity between the rural and urban areas is to increase the wheat certificate to \$1.25 a bushel for domestic production, and that I think we have to do.

I have heard arguments this is going to be a bread tax, this is going to be an unconscionable burden upon the consumer, but bear in mind that the farmer has been bearing the increased labor costs all through these years, and anybody who farms knows what they have been, and so I think this will make a good balance, to balance off farm costs against farm income.

The CHAIRMAN. That would make wheat sell for \$2.50 a bushel.

Senator BURDICK. The domestic share, 45 percent of it.

The CHAIRMAN. We had quite a few witnesses who testified that this would probably increase the cost to such an extent that they may turn to other commodities, substitutes, instead of using bread.

Senator BURDICK. I do not think so, Mr. Chairman. Actually the price of bread has risen and the price of wheat has fallen since World War II, and the precise cost of this increase in local bread is seven-tenths of 1 cent, that is the actual cost. Any increase over 1 cent would not be justified.

I am saying, in balancing the economy where wages have increased in these very areas where there would be consumers of bread, I think we can very well absorb 1 cent without shifting crops, or rather substitutes.

The CHAIRMAN. The evidence presented to us here shows that about 10 years ago with wheat prices declining, the cost of a 1-pound loaf of bread increased, almost doubled.

Senator BURDICK. That is right, that is correct.

The CHAIRMAN. I am certain that it was not due to the cost of the raw material, but labor cost, transportation cost, and things of that kind.

Senator BURDICK. I share the chairman's views on this. That is why I do not think——

The CHAIRMAN. That was the evidence produced before us. That is why I mention it.

Senator BURDICK. I do not think this unjustifiably raises the price unduly. It would not have to. That is my point.

I would also state—if we should do this, then of course I would like to keep the export certificate payments to the present level if possible,

because if we drop the export certificates and have the export portion of the wheat bear no subsidy at all, we would have a very slight increase in farm income. We need more than a slight increase.

The CHAIRMAN. What about an increase in acreage? Do you want that also?

Senator BURDICK. No, sir.

The CHAIRMAN. And you would want to be paid for not planting the acreage between 55 million and what is needed, say, 48 million?

Senator BURDICK. The same as last year.

The CHAIRMAN. The same as last year?

Senator BURDICK. Yes.

The CHAIRMAN. How much would that increase the cost of the wheat program; do you know?

Senator BURDICK. Well, I understand that the certificates, the foreign portion would come to \$125 million.

The CHAIRMAN. That would make the cost of the wheat program very high. It will cost \$1.3 billion in fiscal 1965, according to the estimates we have.

Senator BURDICK. Maybe all together.

The CHAIRMAN. With the world wheat agreement which runs for another year, as you know.

Senator BURDICK. I am not computing those costs. You may be correct.

The CHAIRMAN. I am talking of all the costs.

Senator BURDICK. I am talking of the export certificates.

The CHAIRMAN. I am quoting all the costs of the program.

Senator BURDICK. I am not prepared to argue. All I am saying is that the export certificates cost an estimated \$125 million.

The CHAIRMAN. What do you think the attitude of the people of our country is going to be if we continue to increase the cost of these programs? All of this, of course, comes from the taxpayers. As I pointed out, our program has been more and more costly. It is my belief that if it continues to increase, and if there continues to be more people from the urban areas coming to the Congress—that is the lower House in particular—some day we may lose these programs.

Senator BURDICK. That has to be weighted against the bankruptcy of a good number of farmers who are going to find their way into the labor market of the big cities, too.

The CHAIRMAN. I realize that. I am just throwing it out for thought. That is what I have been fearful of all along.

Senator BURDICK. I think with our gross national product the way it is that the cost I have outlined will not be unduly unreasonable.

The CHAIRMAN. That GNP is a phony to me. You can make it a trillion if you just increase inflation. Anything else?

Senator BURDICK. That is all I have.

The CHAIRMAN. Any further questions?

Senator BURDICK. I would like to have this document placed in the record.

The CHAIRMAN. Without objection.

(The document referred to follows:)

Information furnished by the Production Credit Association, Grafton, N. Dak.

	Current assets	Current debt	Acres farmed	Real estate debt
Farmer A:				
1950.....	\$14,930	\$400	320	-----
1964.....	14,665	2,680	320	\$8,500
Farmer B:				
1957.....	25,345	11,660	815	29,000
1965.....	31,505	41,622	1,455	46,279
Farmer C:				
1950.....	8,325	1,919	252	62,400
1964.....	12,945	1,391	412	13,000
Farmer D:				
1958.....	11,350	3,815	378	12,000
1964.....	18,188	11,990	518	26,400
Farmer E:				
1949.....	22,620	8,025	165	3,700
1964.....	66,485	34,722	160	26,143
Farmer F:				
1957.....	15,430	2,250	320	19,500
1965.....	18,135	935	320	3,900
Farmer G:				
1950.....	9,140	3,000	240	-----
1964.....	7,955	8,655	385	11,000
Farmer H:				
1960.....	109,830	39,000	1,000	9,000
1965.....	129,575	49,000	1,320	95,000
Farmer I:				
1949.....	14,820	300	480	-----
1965.....	33,225	14,500	480	19,000
Farmer J:				
1950.....	12,810	1,025	320	5,850
1964.....	23,190	16,267	404	36,406
Farmer K:				
1949.....	65,495	15,652	1,120	4,000
1965.....	63,370	37,425	1,120	47,000

Senator MONDALE. May I ask a question, Mr. Chairman?

The CHAIRMAN. Senator Mondale.

Senator MONDALE. Senator Burdick, do you have a figure on what the blend price is that the wheat farmer receives per bushel now under the existing program?

Senator BURDICK. I think it is approximately \$1.77.

Senator MONDALE. And what would it be under the administration's wheat bill without export certificates?

Senator BURDICK. About \$1.82 I think.

Senator MONDALE. So it is an increase of about?

Senator BURDICK. 5 cents.

Senator MONDALE. 5 cents a bushel is the way it works out and you would like to see the export certificate retained.

Senator BURDICK. Yes.

Senator MONDALE. As you know, the administration's bill does include discretionary authority to permit the Secretary to reinstitute export certificates.

Senator BURDICK. That is correct, but if the information I have is correct—I did not attend the hearings—there is grave doubt whether he would invoke that discretion next year. I think that is what the testimony was. I may be mistaken, but he has not spelled out any assurance that he would use that discretion.

The CHAIRMAN. Any further questions?

Senator MILLER. I might ask a question. As I understand it, Senator, the proposed bill provides for discretion to set the support price for wheat from 65 to 100 percent of parity.

Senator BURDICK. Yes.

Senator MILLER. Do you think that such a spread in discretion ought to be permitted?

Senator BURDICK. Of course I would like to see the floor higher than 65 percent.

Senator MILLER. How much?

Senator BURDICK. Oh, I think 75 percent, and as a matter of fact there is no floor at all in the foreign section, you know. That can go from zero.

Senator MILLER. I am talking about the domestic price.

Senator BURDICK. Yes.

Senator MILLER. Do you think that discretion in the Secretary of Agriculture to set the floor at 75 percent or to set the spread at 75 to 100 percent is a good policy?

Senator BURDICK. I would like to see on the domestic section, domestic wheat, I would like to see that mandatory at 100 percent of parity.

Senator MILLER. Do you think that a mandatory 90 percent would be better than a discretionary 65 to 100 percent?

Senator BURDICK. Oh, yes.

Senator MILLER. Do you think a mandatory 80 percent would be better than a discretionary 65 to 100 percent?

Senator BURDICK. It would be somewhat better.

Senator MILLER. Do you think a mandatory 75 percent would be better than discretionary 65 to 100 percent?

Senator BURDICK. I would like to stick in the mandatory area of 90 to 100 percent.

Senator MILLER. Yes, but you would say that even the 80 percent would be better than the 65 to 100 percent discretionary.

Senator BURDICK. You get into the position where you foreclose the Secretary from going to 100 percent on this mandatory area.

The CHAIRMAN. Yes.

Senator BURDICK. Mandatory ceiling? No, no.

Senator MILLER. Then let me rephrase my question again. The bill provides for a discretionary 65 to 100 percent. My first question was in lieu of that, would it be better from the standpoint of the people you are representing to have a mandatory 90 percent, no discretion in it at all, 90 percent of parity?

Senator BURDICK. I might go with you on 90 percent, but when you get down to 80 percent, I think I would supplant discretion because the Secretary might bring it up higher.

Senator MILLER. He might for 1 year, but he might drop back to 65 percent the next year.

Senator BURDICK. But all these conjectures mean just one thing. I think we should have 100 percent for that domestic consumption.

Senator JORDAN. What would 90 percent yield per bushel? What would that fix the domestic price at?

Senator AIKEN. Ninety percent would be \$2.25 approximately.

Senator BURDICK. Yes, approximately \$2.25. Yes, I would go that far.

Senator MILLER. But not 85 percent.

Senator BURDICK. I think the discretion might give us more money.

Senator MILLER. What is the average cost to produce a bushel of wheat up in North Dakota? Have you got any figure on that?

Senator BURDICK. No, I have not. I know it is too high because they would not be going into debt as I described in this exhibit. They are not meeting the costs in North Dakota.

The CHAIRMAN. Any further questions?

Senator MILLER. No further questions.

The CHAIRMAN. If not, we thank you very much, Senator Burdick.

Senator BURDICK. Thank you.

The CHAIRMAN. Is Mr. Staley here?

Mr. Staley, I understand you have Mr. Sickles with you. You may be seated, sir.

Have you a written statement?

**STATEMENT OF OREN LEE STALEY, PRESIDENT, NATIONAL
FARMERS ORGANIZATION, CORNING, IOWA**

Mr. STALEY. Yes, sir.

The CHAIRMAN. Do you desire to read it?

Mr. STALEY. Yes, sir.

GENERAL

Mr. Chairman and members of the committee, I am Oren Lee Staley, president of the National Farmers Organization. I have with me Mr. Harvey Sickles who is our national secretary and legislative representative. We are both farmers and maintain our own farm operation, as well as offices in the NFO.

The primary objective of our organization is to establish sufficient bargaining power for farmers, so they can price their products at fair levels at the marketplace. We are making great progress toward this objective. We are now well organized in the diversified agricultural area, with strong organization in almost every county extending from the Pennsylvania line to the western edge of the diversified agricultural area of Kansas and Nebraska, and from the Canadian border into Kentucky and Oklahoma with a growing organization in the States of Tennessee, Arkansas, Florida, New York, New Jersey, West Virginia, Colorado, Wyoming, and Idaho.

This has brought together bargaining strength in agriculture many times greater than any previous efforts. Every member of our organization is a farmer or producer.

The strength of the NFO has now reached the point that we are entering the final phase of our collective bargaining program. We are in the actual marketing phase.

Through this great diversified area we have brought together enough strength that many of the large processors are beginning to receive production from our members as such, which has been quite a lengthy battle but at the same time we recognize that every aspect of the agricultural field, legislation must be considered, and our position is and has been that farmers must accept more responsibility than they ever have in the past in meeting their own problems, but at the same time we feel that we must work just as hard to maintain every legislative effort, program, and that it be a coordinated effort on the part of the Government and farmers in meeting problems that exist.

The CHAIRMAN. What is your present membership?

Mr. STALEY. We have never revealed our membership, and I would like to state why shortly.

The CHAIRMAN. All right, just forget about it. If you do not want to reveal it, it is all right.

Mr. STALEY. It is a bargaining organization.

The CHAIRMAN. I understand. Do you operate all over the country?

Mr. STALEY. About 25 States.

The CHAIRMAN. What is your method?

Mr. STALEY. Well, our method, of course, is to organize farmers. They sign a membership agreement which represents a signing of a membership agreement for a period of 3 years, and this is in order to keep stability in the organization. The purpose of this and the final decisions, of course, have to be approved by the members themselves by a two-thirds vote. But the purpose is to bring together enough of the total production so that these farmers are selling together, so that the present volume buyers cannot fulfill their needs from other sources, and when we reach this point of strength which we are beginning to reach, many of the large processors have started taking supplies from us, and very reluctantly of course.

The CHAIRMAN. How would that apply as to commodities that are protected, that the Government has a support price on? Let us take the case of wheat.

Mr. STALEY. Right.

The CHAIRMAN. How does your organization function there?

Mr. STALEY. This does not keep us—and in fact this assists our bargaining effort any time that the supply is kept in balance—any program that helps it improves our bargaining power. Of course there is nothing that keeps us from bargaining for a higher price than we have been receiving, of course, in most commodities. I would like to state this. That the Capper-Volstead Act, as you are well aware, protects it if we should gain enough strength, from unduly enhancing farm prices. We wish we were in that position today, of getting that.

The CHAIRMAN. Let us take the cases of cotton and corn and other feed grains.

Mr. STALEY. Yes.

The CHAIRMAN. In that area you have the Government supporting the price of those commodities.

Mr. STALEY. Yes.

The CHAIRMAN. At a certain level.

Mr. STALEY. Right.

The CHAIRMAN. How would you operate in that field?

Mr. STALEY. Well, first we believe that the basis of our collective bargaining program is not just a success in one commodity. You must bring them all up in relative balance if you are going to have any success. Otherwise farmers will jump from one commodity to another very shortly.

As far as grain is concerned, you have to tie it all together with the livestock and every other diversified crop. Probably not having to have it tied together so much with cotton because of the nature of the use of the product. But as far as grain is concerned, the program that we are about to come out with will involve several steps.

One, the first success of a grain bargaining effort is, Will the farmers keep ownership of this grain at harvesttime? This is the whole key.

If they sell it to the processors, the handlers, the speculators at harvest-time, then you lose your bargaining power. Therefore, it means that the first key is for them to store their grain, keep it in their hands.

The CHAIRMAN. You mean under their own power, in their own name?

Mr. STALEY. Both. We have interwoven this very closely where possible by recommending that our members, where eligible, store their grain, receive the commodity lines, use this as a floor.

The CHAIRMAN. You are for price supports, are you?

Mr. STALEY. Yes, sir.

The CHAIRMAN. Proceed.

Mr. STALEY. Getting down into the problem, I think there are a few fallacies. I know you, Senator, from your long experience as chairman of this committee, and the other Senators know we do have serious problems in agriculture and it is a very difficult battle to wage these days because the farmers are few in number, and because the general attitude of the public has not been the best, partially because of a divided house against itself in agriculture, and we have not done the best job of public relations and explanation of our programs, and the effect they have on the entire economy.

I think that one of the things that is enlightening is that the theory of many of those that are talking about farm operators leaving the farm, thinking that there is going to be a million commercial farmers out here or whatever there is, according to what some of the predictions are, that many of those that are recommending that this be the answer to the farm problem are going to find that many of the farmers that they expect to be out here as commercial farmers are not the ones that have resisted the shakeout brought about by low prices over the period.

We have some figures here which I know you and the committee have, but the Internal Revenue figures that were just released not long ago showing the percent, showing profit as we have the figures here of over 100,000 were not such a fortunate class, and the figures under the \$5,000 with the 2,212,000 operators, 68.6 percent showed a profit. I have a feeling that many of those had off-the-farm income that was sifted over a few bushels of corn at the elevators as they came home from work and this, that, and the other, and did not keep to good a record.

Senator AIKEN. Excuse me, Mr. Chairman.

The CHAIRMAN. Senator Aiken?

Senator AIKEN. If you have a gross income of \$5,000 which shows a profit—of course, that means you have got to pay tax—how much of a living would that give the family that had gross returns of under \$5,000, even though they showed a profit? Would that not practically qualify them for the poverty program?

Mr. STALEY. Yes.

Senator AIKEN. Would you say out of \$5,000 gross there would be over \$3,000 net?

Mr. STALEY. No, there could not. Now this percentage here, percent showing profit, does not mean they had to pay tax.

Senator AIKEN. No?

Mr. STALEY. It means they just showed \$1 profit or more.

Senator AIKEN. They pay State and local taxes.

Mr. STALEY. Yes.

Senator AIKEN. Unless they are different than any that I know.

Mr. STALEY. That is right. This is the overall figure. Now I think the point that I would like for us to think about there would be that there are about 47.1 percent of all the farmers in the United States that are considered in the poverty class as far as poverty, poverty analyses made, spending \$3,000 of income or more, so there is about this percentage of the farmers in this class. But here is the point I would like to make. The farmers in many of these—and the point I was trying to make was that with the vast number of farmers or their wives or both that had off-the-farm jobs are the ones that can stay on the farm much longer than the farmer that maybe has a good commercial family-type operation.

In other words, this is just his farm income, and with some \$6 billion off-the-farm income last year, this means that there are many of those farmers that have off-the-farm income that no longer do they have a major portion of their income from farming. That is a sideline. Those are the people that can stay a lot longer than a commercial family-type farmer, because if your profit is low—because once you get to a certain size—and speaking from experience—once you get to a certain size, you have to have your management there in order to protect your investment, and you cannot take off-the-farm jobs.

Senator AIKEN. But for those folks, losses are deductible from their other businesses, those who have over \$100,000 income from a farm, \$50,000 or even \$25,000. A small percentage of them show a profit; I have known a few of them.

Mr. STALEY. Yes, you are right.

Senator AIKEN. And the losses are deductible.

Mr. STALEY. This is correct.

Senator AIKEN. And the loss to their income is nothing, and they get a lot of fun out of it.

Mr. STALEY. Right, but of course some of those 3,000 operators that show this much gross undoubtedly made it from the farm.

Senator AIKEN. Are bona fide farmers.

Mr. STALEY. Yes, some of them are, but a high percentage, as you say, are those that have it as a hobby. This is correct, Senator.

Senator AIKEN. They have the farm, the sheep and horses for atmosphere, I think. It is kind of a status.

Mr. STALEY. I think the more accurate figures are those from the \$10,000 to the \$50,000 gross——

Senator AIKEN. Yes.

Mr. STALEY (continuing). Reflecting a more true picture of really commercial family-type farms that you have in it, because these are the ones that are bona fide farmers.

The CHAIRMAN. What position did your organization play—some time last year I think—in keeping cattle and hogs off the market?

Mr. STALEY. This is correct.

The CHAIRMAN. That is your organization that did that?

Mr. STALEY. This is correct. Now this is part of establishing bargaining power. It is no different than a merchant putting a price tag on his goods or labor striking when they are bargaining. This is the reason that we have made the gains that we have, because many of the large producers found the necessity of recognizing that we did

represent a large amount of the supply, and therefore the dealing with us.

LIVESTOCK

The CHAIRMAN. Do you take the credit for the fact that there has been an increase in the price of cattle this last year of 4 or 5 cents a pound and in hogs I think equally as much?

Mr. STALEY. I think that we were a major factor in some of the recent price increases, and I would like to just briefly explain in a minute or two's time.

We have had in operation marketing arrangements, and this has been operating now for the last 4 or 5 months very successfully. We reached the point of volume of 35,000 head of hogs a day in marketing arrangements where our members were given the opportunity, through our bargaining efforts, to sell to particular processors that had met the qualifications or specifications of our organization, requiring that they have proper facilities and keep competitive in price. In taking this much of a volume—and this was only scratching the surface of the production——

The CHAIRMAN. What percentage was this volume?

Mr. STALEY. This would be about 8 to 9 million head of hogs a year rated that, with about 300 marketing days going over 10 million, which gets up to, as you know, the 78 to 80 million that are normally marketed. But this was only scratching the surface of our members, and we have been building.

We did this same thing on the cattle. What I would like to say, what has happened is that we would try to supply the processor in an even flow of production. We try to get it close in to their plants, which has broken up past buying patterns.

If you two Senators were two processors, for example, if we were supplying you, Senator Aiken should be the processor that we were not supplying because he had not been willing to meet these requirements, it means then you in the past pretty well had your normal channels of buying from, wherever the buying stations might be. But if more production from this area went, Senator Aiken was then short, he would have to go somewhere else in order to get his supply, and if we went into another processor's area, it meant that by going into another processors' area, that he would have to bid more, a quarter maybe, in order to get it, and this started some real competition.

Senator AIKEN. Well, do you not think Senator Ellender would be more likely to come across than I would?

Mr. STALEY. Well, we will turn it around. We might change in the middle of the stream. He might not quite meet our requirements so we might change to you.

Senator AIKEN. I would never change in the middle of a stream.

The CHAIRMAN. The point is thought that you are making it harder and harder for the processors to obtain their livestock, and in that way you hope to increase the price.

Mr. STALEY. This is right. In other words, when we do a good job of supplying one processor, it shorts another one.

FEED GRAINS

The CHAIRMAN. The price of grain does not pertain much to this; does it?

Mr. STALEY. It does not at this point, but I do not think that you can keep any commodity up above the price of other major commodities very long without having a definite effect on the other commodities. In other words, farmers can change their production very rapidly, and unless they are brought up somewhat in relative balance, it means that farmers are going to jump into producing the other commodities, which will cause serious problems within that commodity. And so they are all interwoven.

The CHAIRMAN. The reason I asked the question is this. I think in the last 2 or 3 years the price of grain has been more or less constant. It has not varied much, and even with that the price of beef and hogs as well as poultry has gone up some.

Mr. STALEY. It has in the last 4 months, yes.

The CHAIRMAN. Would you say that your efforts have been instrumental in causing these price rises?

Mr. STALEY. We think that we undoubtedly are the major factor in the price rise, but at the same time I would like to point out that there are some other factors also involved. We would be foolish to say that we were the only factor. You have some reduction of supply. You have had farmers selling at lighter weights, which has been instrumental in it. And I think the lighter weights have been brought about generally by the lack of profit in it, which has discouraged continuing to feed in many cases.

The cattle feeders had a rough time trying to feed their way out of the cost-price squeeze that they got involved in. So those factors are all involved.

LIVESTOCK

The CHAIRMAN. Do you not think that the fact that the farmers went all out to obtain more hogs and more cattle and more poultry has in a measure caused the prices to inflate?

Mr. STALEY. I think there are several factors involved.

The CHAIRMAN. But I say is that not one of the main ones?

Mr. STALEY. This is one.

The CHAIRMAN. Have you a table or something to show this increase over the last 4 or 5 years? If not we are going to have it put in the record at this point to show that.

Mr. STALEY. Yes.

The CHAIRMAN. This will show the situation in the last 5 years of production, particularly in the cattle and hog areas as well as poultry.

(The information referred to follows:)

Number of livestock on farms and ranches January 1, United States, 1955 to date ¹

Year	Number on farms January 1 (in thousands)				Index numbers, by groups (1957-59=100)			
	All cattle and calves	All sheep and lambs	Hogs	Chickens	Total livestock and poultry	Meat animals	Milk cattle	Poultry
1955-----	96,592	31,582	50,474	390,708	104	103	111	100
1956-----	95,900	31,157	55,354	383,690	104	104	107	98
1957-----	92,860	30,654	51,897	391,363	100	100	105	102
1958-----	91,176	31,217	51,517	374,281	98	98	100	97
1959-----	93,322	32,606	58,045	387,002	102	102	95	101
1960-----	96,236	33,170	59,026	369,484	104	104	93	96
1961-----	97,534	32,982	55,506	361,685	104	104	92	96
1962-----	100,002	31,320	57,000	368,452	106	106	91	97
1963-----	103,736	29,793	58,883	366,823	110	110	89	97
1964-----	106,743	28,021	58,119	369,959	112	112	86	97
1965 ² -----	107,152	26,668	53,052	376,714	111	111	83	99

¹ Data for 50 States beginning in 1961.
² Preliminary.

Number of cattle and calves on farms and ranches January 1, by classes, United States, 1955 to date ¹

[In thousands]

Year	For milk				Not for milk					
	Cows and heifers, 2 years and over	Heifers, 1 to 2 years old	Heifer calves	Total	Cows and heifers, 2 years and over	Heifers, 1 to 2 years old	Calves	Steers, 1 year old and over	Bulls, 1 year old and over	Total
1955-----	23,462	5,786	6,094	35,342	25,659	6,514	18,804	8,444	1,829	61,250
1956-----	22,912	5,407	5,890	34,209	25,371	6,206	18,869	9,483	1,762	61,691
1957-----	22,325	5,267	5,699	33,291	24,534	5,926	18,405	8,991	1,713	59,569
1958-----	21,265	5,126	5,571	31,962	24,165	5,903	18,275	9,252	1,619	59,214
1959-----	20,132	5,050	5,526	30,708	25,112	6,557	19,407	9,931	1,607	62,614
1960-----	19,527	5,079	5,575	30,181	26,344	7,036	20,425	10,574	1,676	66,055
1961-----	19,361	5,063	5,550	29,974	27,102	7,069	20,705	10,977	1,707	67,560
1962-----	19,167	4,965	5,418	29,550	28,305	7,333	22,050	11,060	1,704	70,452
1963-----	18,679	4,823	5,149	28,651	29,970	7,909	23,330	12,129	1,747	75,085
1964-----	18,088	4,558	4,993	27,639	31,811	8,326	24,575	12,574	1,818	79,104
1965 ² -----	17,593	4,374	4,874	26,841	32,883	8,513	25,133	11,926	1,856	80,311

¹ Data for 50 States beginning in 1961.
² Preliminary.

Source: Livestock and Meat Situation, USDA: March 1965.

Choice slaughter steer prices: Average cost per 100 pounds of sales out of first hands, Chicago, 1950 to date
[In dollars]

Year	January	February	March	April	May	June	July	August	September	October	November	December	Weighted average
1950	28.14	27.19	27.33	27.66	29.19	29.99	30.62	29.97	30.32	30.42	31.24	32.98	29.68
1951	34.77	35.98	36.67	36.93	36.52	35.68	35.47	35.85	36.68	36.31	36.09	34.78	35.96
1952	34.68	34.57	34.69	34.76	34.17	32.81	33.03	33.02	32.53	32.55	32.20	30.86	33.18
1953	27.84	24.49	22.68	21.99	22.36	22.04	24.41	25.28	25.87	25.63	25.03	24.37	24.14
1954	24.74	23.86	23.89	24.83	24.25	23.88	23.99	24.06	25.00	25.37	25.85	26.53	24.66
1955	26.98	26.17	25.80	24.62	23.09	22.63	22.72	22.43	22.69	22.01	20.83	20.35	23.16
1956	20.02	18.88	19.41	20.56	20.70	21.05	22.37	25.81	27.27	26.08	24.30	21.99	22.30
1957	21.23	20.57	21.86	22.99	23.31	23.48	25.12	25.63	24.98	24.67	25.20	25.98	23.83
1958	26.82	27.54	29.90	29.37	28.83	28.07	26.99	26.11	26.70	26.67	26.77	27.19	27.42
1959	28.13	27.85	29.11	30.33	29.34	28.48	27.89	27.56	27.62	27.19	26.53	25.57	27.83
1960	26.42	26.69	28.08	27.76	27.43	26.04	25.64	25.07	24.80	24.94	26.08	26.86	26.24
1961	27.42	26.17	25.70	25.05	23.43	22.45	22.38	24.13	24.34	24.55	25.58	26.13	24.65
1962	26.39	26.76	27.31	27.45	26.02	25.25	26.50	28.19	29.85	29.50	30.13	28.91	27.67
1963	27.27	24.93	23.63	23.77	22.61	22.69	24.72	24.60	23.94	24.03	23.51	22.30	23.96
1964	22.61	21.34	21.56	21.28	20.52	21.57	23.44	25.28	26.07	25.07	24.64	24.01	23.12
1965	28.28	24.02	24.31	25.63	26.88	27.44							

¹ June is a 4-week average.

Source: ERS—USDA.

U.S. imports, exports, and net imports of beef and veal, pork, lamb, and mutton, and total meat in relation to domestic production, 1958-64¹

BEEF AND VEAL

Year	Production	Imports	Exports	Net imports	Percentage of U.S. production		
					Imports	Exports	Net imports
	Million pounds	Million pounds	Million pounds	Million pounds			
1958	14,516	909.0	32.6	876.5	6.3	0.2	6.0
1959	14,588	1,063.2	34.4	1,028.8	7.3	.2	7.1
1960	15,835	775.5	35.8	739.7	4.9	.2	4.7
1961	16,342	1,037.1	36.0	1,001.2	6.3	.2	6.1
1962	16,311	1,440.0	32.1	1,407.9	8.8	.2	8.6
1963 ²	17,352	1,677.5	32.6	1,644.9	9.7	.2	9.5
1964 ²	19,435	1,194.1	64.8	1,129.3	6.1	.3	5.8

PORK

1958	10,454	193.1	61.8	131.3	1.8	0.6	1.3
1959	11,993	186.0	79.1	106.9	1.6	.7	.9
1960	11,605	185.6	75.9	109.7	1.6	.7	.9
1961	11,411	187.2	72.3	114.9	1.6	.6	1.0
1962	11,841	215.9	66.9	149.0	1.8	.6	1.3
1963 ²	12,439	225.0	141.7	83.3	1.8	1.1	.7
1964 ²	12,523	230.6	138.3	92.3	1.8	1.1	.7

LAMB AND MUTTON

1958	688	41.2	2.4	38.8	6.0	0.3	5.6
1959	738	104.2	2.2	101.9	14.1	.3	13.8
1960	768	87.0	2.0	85.0	11.3	.3	11.1
1961	832	100.7	2.0	98.8	12.1	.2	11.9
1962	809	143.2	2.6	140.6	17.7	.3	17.4
1963 ²	770	144.7	1.5	143.2	18.8	.3	18.6
1964 ²	715	79.0	1.9	77.1	11.0	.3	10.8

TOTAL MEAT

1958	25,658	1,143.3	96.8	1,046.5	4.5	0.4	4.1
1959	27,319	1,353.3	115.7	1,237.6	5.0	.4	4.5
1960	28,208	1,048.1	113.7	934.4	3.7	.4	3.3
1961	28,585	1,325.1	110.2	1,214.9	4.6	.4	4.2
1962	28,961	1,798.8	101.5	1,697.3	6.2	.6	5.9
1963 ²	30,561	2,047.2	176.0	1,871.2	6.7	.6	6.1
1964 ²	32,673	1,503.7	205.0	1,298.7	4.6	.6	4.0

¹ Carcass weight equivalent.
² Preliminary.

Source: Livestock and Meat Situation, USDA May 1965.

U.S. imports of cattle from specified countries, excluding breeding animals and cows for dairy purposes, 1958-64

[Head]

Year	700 pounds and over				Under 200 pounds			
	Canada	Mexico	Other	Total	Canada	Mexico	Other	Total
1958	230,025	80,589	1,110	311,724	13,580	3,231	0	16,811
1959	90,259	45,697	0	135,956	30,738	1,037	0	31,775
1960	60,865	19,631	0	80,496	32,079	1,773	0	33,852
1961	88,660	36,410	0	125,070	28,605	8,655	0	37,260
1962	72,205	36,732	0	108,937	41,315	24,925	0	66,240
1963	51,018	18,123	22	69,163	36,618	27,120	1	63,739
1964 ¹	45,880	1,777	0	47,657	50,714	13,162	0	63,876
	200 to 699 pounds				Total			
1958	373,671	403,166	0	776,837	617,276	486,986	1,110	1,105,372
1959	186,630	317,095	0	503,725	307,627	363,829	0	671,456
1960	140,471	369,113	0	509,584	233,415	390,517	0	623,932
1961	337,452	497,999	0	835,451	454,717	543,064	0	997,781
1962	351,336	690,228	0	1,041,564	464,856	751,885	0	1,216,741
1963	148,486	540,099	353	688,938	236,122	585,342	376	821,840
1964	86,713	315,962	700	403,375	183,307	330,901	700	514,908

¹ Preliminary.

Source: Livestock and Meat Situation, May 1965, USDA.

Mr. STALEY. I would like to say this, Senator. That there is another factor that is probably equally important which has brought about a changing of the concentrated buying and selling power at the retail level, which we testified on before the Food Commission. You have today a situation where you have the chainstores retailing 90 percent of the food or close to it in some of the commodities, and this has brought about vast buying power.

I am not sure that this does not necessarily lead to the detriment of farmers if they establish some power to counteract it, but at the same time the chainstores pretty well today say the price that is being paid or the price they are going to pay, so this is a factor which farmers and agriculture have never been up against before.

The CHAIRMAN. Do you know of any chainstores or large concerns that engage in the production of livestock?

Mr. STALEY. Yes; there are some, some of the major ones, correct. Before the Food Commission we told them that it was only through the use of the power of subpena, because of pressure within the industry that was exerted one on another; a processor cannot very well freely talk and make estimates known when it may affect his only real large buyer, the practice that is involved. Therefore the power of subpena would have to be used.

The CHAIRMAN. Is it your observation that these large chainstores can raise cattle and can raise hogs and can raise poultry cheaper than the farmer, the ordinary farmer?

Mr. STALEY. I think that they cannot raise it cheaper. I think they use it for a different purpose.

The CHAIRMAN. As a lever to get lower prices?

Mr. STALEY. This is correct. This is where they show their advantage. That is correct. And they use several other methods now of being able to store with increased storage facilities to be able to say out of the market for a 2- or 3-day period of time. This is good busi-

ness on their part, but it also means it is a price controlling factor as far as they are concerned by being able to keep their power such as it is where they say to a processor, "This is the price we are paying." They could not do this 5 years ago for example. This has come about in the last 3 or 4 years on this point.

The CHAIRMAN. As I understand the power of these large distributors, it is not peculiar to the field of raising livestock, but it pertains also in the production of vegetables and fruit.

Mr. STALEY. Correct.

The CHAIRMAN. And then canning.

Mr. STALEY. This is correct.

Senator AIKEN. I was going to ask is there more money in storing a bushel of grain than there is in selling a bushel of grain.

Mr. STALEY. Well, it all depends on whether the farmer has the facilities to store.

Senator AIKEN. On who owns the facilities.

Mr. STALEY. On who owns the facilities, this is the point, who owns the grain and the facilities. This is the point.

Senator AIKEN. Sometimes the two interests come in conflict.

Mr. STALEY. Generally.

Senator AIKEN. Yes.

Mr. STALEY. Generally.

Senator JORDAN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, Senator Jordan.

Senator JORDAN. I would like to know if, in your operation, trying to control these prices, is your organization making any effort to cut back these surpluses that you know of? For instance when you get too many cattle, somebody is going to get hurt. Too much of anything always drops the price. One thing that we have been trying to do in this committee all the time is to cut back production in order that you could support it.

Mr. STALEY. Under our master contracts with processors, we of course have our base price, and I could go into a long discussion, but basically the base price, which means not less than the prevailing market price. However, this is on your top grade, and I will use hogs for example, 190- to 210-pound hogs. This is your base price. We have it then so that we can change the incentives to sell at lighter weights so that as the production begins to build, that we can reduce tonnage by incentives to sell at lighter weights hogs or cattle.

Dairy, for example, one of the things will be the incentives used on veal dairy heifer calves to get them slaughtered in order to take care of some production 2 years hence.

As far as grain, this is where very definitely we have to work very closely with Government programs on the storage and the programs, and the reason that it is all tied together and interwoven into where I said the points of mutual interest lie and where we have to have cooperation and understanding.

Senator AIKEN. Are hog prices fairly satisfactory now?

Mr. STALEY. The hog prices, if they could be maintained at this price, are fairly satisfactory, correct.

Senator AIKEN. With the 10-percent reduction in farrowing, does it not look as if they could be maintained for a year?

Mr. STALEY. Of course this gain points out two or three factors. One, with the processors in the position of being able to change the incentive, which they have done to me many times when I had tried to beat a glut by selling a little lighter in order to beat them, they start penalizing lighter weights and they can increase a tremendous amount of tonnage by keeping the weight bracket higher which can compensate to a great degree. It is the tonnage of the meat, it is not the number of head that people eat, you see.

Senator AIKEN. But do they not get more fat which sells at a much lower price?

Mr. STALEY. They get more fat which will sell for a lower price than in the time of a normal supply.

Senator AIKEN. Yes.

Mr. STALEY. But of course people have to eat, and they are going to pay for the quality.

Senator AIKEN. They are going to pay for the fat, too.

Mr. STALEY. They will pay for the fat, too, in those periods of time, this is correct. So this can be adjusted pretty rapidly, and it is something that we have to watch very closely.

The CHAIRMAN. Senator Miller.

Senator MILLER. First, Mr. Chairman, let me say that I happen to know Mr. Staley and Mr. Sickles quite well. They are two very dynamic and knowledgeable farm leaders. I would like to ask two or three questions.

With respect to one of the other factors relating to the improvement in livestock prices, particularly beef prices, would you not say that the decline in imports has had a bearing on this?

Mr. STALEY. I think that the imports definitely, the decline, has had an effect. I think this is one of the probably minor effects on it, but it has had an effect.

Senator MILLER. The chairman indicated he was going to have a table put in the record relating to the price levels over the last 5 years. I wonder if it would be possible——

The CHAIRMAN. And the number of cattle and hogs.

Senator MILLER. And the number of cattle and hogs. I wonder if it would be possible to couple with that the figure showing the imports in each of those years, too.

The CHAIRMAN. I presume so, yes.

Senator AIKEN. And exports.

The CHAIRMAN. We can do that.

Senator AIKEN. Exports, because, as imports increase, we spend a lot of money to export surplus.

The CHAIRMAN. Imports and exports, yes. All right, we will do that.

Senator MILLER. That is fine.

(For information requested above, see p. 1041.)

Senator MILLER. Now, with respect to your testimony on page 1 where you indicate that you are trying to maintain an increased farm income, I assume that you are talking about net farm income.

Mr. STALEY. This is correct.

Senator MILLER. Then with respect to the suggestion, I believe in response to the chairman's question, where you would pay the price supports, you stated——

Mr. STALEY. This is correct.

Senator MILLER. May I ask you would you favor price supports at 100 percent of parity? I ask this for this reason: It seems to me that if price supports might be established at 100 percent of parity, then the purpose for which you are striving would have been attained, and it might cause diminished reliance on your organization and its activities, and also it would place increased reliance upon the Federal Government for the parity price.

Mr. STALEY. Senator, we are in a unique position. As farm leaders, all the people in National Farmers Organization would rather be back farming than sit at the desk trying to wage the battle for farmers. They would rather be back on their own farms. I think you are correct, however, in that we feel first that it is the responsibility of any farm organization, farm leaders, or anyone that represents the interests of farmers—elected Senators, Congressmen, and all—to do everything they can to maintain and increase farm income because of the inequities of farm income.

Therefore we feel that it is our responsibility, as an organization in behalf of our members, to do everything possible to take those steps as well as the use of our own organization, the use of the farm programs, administrative policies, and therefore we have supported any farm programs, administrative policies, that we felt would increase farm income.

However, on the other hand, I think that we have to be realistic enough these days to realize that the American public will not let the Federal Government solve all the farmer's problems and will not assume the financial responsibility of agriculture alone. Therefore I think that this comes into the field where farmers must do their part, and that the Government must help accomplish anything the farmers themselves cannot and also assist if it is at all possible. That is the way we feel about it.

Senator MILLER. When you talk about favoring price supports, I take it you are talking more about price supports as a floor rather than a ceiling.

Mr. STALEY. As I said, we would like to have the price supports as high as possible and do as much of the job as possible. However, it seems that the tendency has been in the last 14 years—it generally has been the big battle to maintain rather than to increase. It is a hard battle that many of you have waged to even maintain what we have had.

Senator MILLER. It would just seem to me that if, for example, we should set a high price support at say 100 percent, that this would have a tendency to cause less reliance by farmers and their organizations on themselves, and more reliance on the Federal Government, and it is my understanding that one of your long-range objectives is to try to get the farmers to stand on their own two feet without reliance on the Federal Government.

Mr. STALEY. You are correct on this latter point only to the degree that we will always urge the assistance and support on price support programs whatever program this committee and the Senate and the House feels that they can pass.

We want them to do everything they can to increase it. We feel there is a long ways from fairness and equity in prices now, and if the

committee and the House and the Senate do all they can to get out the best farm bill possible, and exerting all of our efforts, it is going to take everybody working at it to get equity, everybody doing the best they can.

Senator MILLER. Another question. In your objective enabling farmers to get fair price levels at the market, you are talking now about the domestic market I presume. I just returned from Europe, and the keynote of our agricultural attachés is the price consciousness of our export trade, particularly in Europe. If we come up with an increase in the price levels at the marketplace here, I can see where, if that is going to be our export price, that this will greatly diminish our export trade.

Do you have any ideas on whether or not we should have a two-price system, one domestic and one export, or what is your position on that?

Mr. STALEY. I think this. We just had a visit with one of the representatives of the Common Market countries. I think the negotiations in the Kennedy round that is soon to be entered into in Geneva and the contemplation of worldwide agreements as far as the world market price are very important in what happens to our prices when our products are exported. I think this should be given deep consideration.

I think that there is soundness in some of the Common Market countries' theories or proposals that this agreement—I do not think their theories go quite far enough, but that with the main exporting countries made up of the Common Market countries, the United States, and including the countries of Britain and others, that for an agreement to be made on the world market prices by treaty under GATT, that to make those and then what is leftover to make a universal effort of the free nations to take this leftover at lower prices somewhat, whatever is necessary to the underdeveloped countries, I think this may be a key to both of the problems, domestic and exports.

Senator MILLER. If this were done, it would result in a two-price system I presume, as compared to our domestic price, would it not?

Mr. STALEY. It could develop into a two-price system only to the point that undoubtedly in the treaty of the prices that are being considered, at least that they are willing to consider, that the price for the free world market, this is the cash market, that the price that they are talking about would be higher than the price today when the world market is really a dumping price. It is really a dumping market and therefore made by treaty the difference between the domestic price and the world price undoubtedly would be much closer than it is today.

Senator MILLER. Do you favor a two-price system?

Mr. STALEY. We favor a two-price system to the point that certainly it depends entirely on two or three general points. First, we feel that the American producers are entitled to American prices for American farm products, just as industry or labor or anyone else is entitled to a price, a fair price for their products. This is No. 1.

No. 2, as far as the two-price system is concerned, this means that you are talking about the policy of many governments involved worldwide, and you are going to talk about the policies of some governments that want cheap raw material products. And so if you could establish a fair price by a treaty of some type, under GATT and such, that

would get this near to a fair price level for agriculture prices because agricultural prices worldwide are certainly following the pattern, with the few countries that are protecting our prices pretty well.

Senator MILLER. Two more questions. When you say you are concerned about net farm income, that means you are not only concerned about price but I am sure you are concerned about cost of production as well. Are you concerned as an organization about the increasing costs of farm production?

Mr. STALEY. I say that we have a growing economy. That this growing economy reflects increased profit in industry, it reflects higher wages and a better standard of living, and without economy geared to this type of a level, I think that we would be very foolish as farmers to say that we are going to try to bring other segments of our population down. I think that this only means a declining prosperity for the entire Nation.

On the other hand, I think that what we had better say is that we want to bring agriculture up to the level of the others without bringing them down. But I think it is time that the rest of the economy realizes that you cannot have continued industrial profits at a high level, wages at a fair level, and farm prices way down on the totem pole.

Although we are small in number, economically speaking we are still a very major factor in the economy, regardless of our number, and this I think is the overall problem of our entire economy.

Senator MILLER. I would like to ask you about this income tax return table where you have adjusted gross returns. Do these figures there reflect only farm income, or do they reflect all other income?

Mr. STALEY. They reflect only farm income as I understand it.

Senator MILLER. In other words, this is the adjusted gross—well, it is sort of the gross profit, that is the sales minus cost of goods sold minus farm expenses shown on the farm schedule.

Mr. STALEY. Right. This would also take care of your depreciation allowances and such involved in it. This is correct.

Senator MILLER. I see.

Mr. STALEY. In other words, this as I understand it—and this is an Internal Revenue figure, it is not ours—that as we interpret it and the information we have, this is what was shown on the final figure of the income tax return that was given to the Federal Government by these many proprietors.

Senator MILLER. Might I say I am a little confused now, because on the farm schedule, schedule F, it would seem to me that the final figure shown under schedule F is what is important.

Mr. STALEY. Yes.

Senator MILLER. Because that is only one of many figures that may appear on the front page of the income tax return.

Mr. STALEY. That is right.

Senator MILLER. Are you suggesting that these figures here are the final figure on the farm schedule itself as distinguished from the final figure on the income tax?

Mr. STALEY. I think this is correct. This is my understanding.

Senator MILLER. I hope it is that way, because to me it would not be meaningful if it were not.

Mr. STALEY. This is correct.

The CHAIRMAN. Any further questions?

Mr. STALEY. I would like to just make one further statement.

The CHAIRMAN. Proceed.

SOYBEANS

Mr. STALEY. One, two, or three statements concerning the bill. That is first we believe that it would be a great mistake to allow soybeans to be planted on diverted acres. We are very much opposed to this. There are two or three main reasons.

The CHAIRMAN. How about planting soybeans in lieu of corn; let us say on allotted acres?

Mr. STALEY. This would be less objectionable. Certainly it does not make sense to us to have a commodity that has been faring pretty well, to try to solve——

The CHAIRMAN. To put it in trouble.

Mr. STALEY. To get it in trouble when you have a program that is working fairly well on the others and then cause all of them to have troubles in the not too distant future. This does not make sense. This is one of the things that we have had problems with in the past sometimes I think, and there is no use making the same mistakes.

The CHAIRMAN. The trouble is we never learn.

Mr. STALEY. I guess so.

The CHAIRMAN. From past experience.

CCC RESALE PRICE

Mr. STALEY. I guess none of us do.

Then another point is that we believe that to raise the level at which the Government could sell their products would be a mistake, on the market, raising it from 105 percent of the support price level. Now, this may seem to put us in an odd position because of the fact that we are trying to bargain for higher prices and all. But we foresee what would happen under the present program, and that would be that it could very conceivably raise the price the first year. The next year, however, you would not have any compliance, or very little compliance, and this would mean that you would create a lot of problems there, and it would largely be profit for the speculators and the handlers of the large grain companies and the storage facilities.

But they would in the second year end up with problems because with the fact that it would not be eligible for support and not be eligible for storage they would run into problems because they would have a supply without any Government storage, but we would have this tremendous buildup in a short time.

The CHAIRMAN. With a large surplus, the market price will certainly go down.

Mr. STALEY. This is always a price-depressing factor, and the problem is that if you have them so that they cannot be fed on, then it raises temporarily.

The CHAIRMAN. Yes.

Senator Mondale, did you want to ask a question?

FEED GRAINS

Senator MONDALE. As I understand your testimony, the NFO is generally satisfied with the feed grain program.

Mr. STALEY. This is correct. We are satisfied to this point. We think that like anything else, that it is not nearly reaching the goal that we would like to see the farm price level at, because when we talk about farm prices, even with the price of hogs and cattle that we were talking about, they are far under what they were in the 1947, 1949, 1950 period. So we are not talking about something that we have never had before. We are just talking about a little something coming back of what we have had.

But under the circumstances the feed grain program appears to be working fairly well, and participation has been pretty high. There are shortcomings, of course, as there are in any program, but with the problems of getting through the farm bills and the opposition from all segments, it gets to be a difficult job which we know lies in the hands of a few Senators and Congressmen to wage the battle against unfair criticism many times.

Senator MONDALE. And I understand you would favor a 4-year extension of the program.

Mr. STALEY. It seems to us that this is very important, Senator, from the fact that every 2 years we get into the same problem of going back over and rehashing what we have rehashed 2 years previous, and each time it brings into the public mind this big battle on prices and the cost of Government programs that is put out before the public every 2 years.

It seems to us that with the program working fairly well now for a period of time, that it would be well to extend it long enough—and you can always change it; at least if it is not working out in 2 years you have that prerogative as the Senate—it seems to us that the smart thing to do is to extend it for 4 years and keep this from being the inflammatory discussion before the public.

DAIRY PRODUCTS

Senator MONDALE. I notice in your testimony you did not deal with dairy, and I suppose that is because the commodity bill——

Mr. STALEY. This is correct.

Senator MONDALE. Yet in Minnesota it is my impression that of all the farmers, I think the poorest return is——

Mr. STALEY. This is correct.

Senator MONDALE (continuing). Is to the dairy farmer.

Mr. STALEY. Yes. Well, this testimony, as we understood it on this bill, does not concern dairy primarily. With the dairy testimony we certainly will be testifying, and I think of all the segments of the farm population, the dairy farmers have more problems, and I have been in some areas in Minnesota and Wisconsin, the heart of the dairy-producing area, where there are many farm sales of dairy cows going on even through the summer, not even stopping, because of the low return and many of them not broke but many of them disheartened to the point that they are just quitting.

Senator MONDALE. I have one comment, and then I will be through, Mr. Chairman.

You make this point which is well taken, and I do not think it is well understood. That is that the presently depressed farm income and the cost-price squeeze is not squeezing out the farmer at the bottom of the rung who is receiving part and growing part of his farm income off the farm but the efficient family farmer in the middle, he is the one who is leaving.

Mr. STALEY. This is the point.

Senator MONDALE. I have seen other figures which substantiate the same point.

GENERAL

Mr. STALEY. This is the heart of the agricultural production machinery in agriculture. The medium-sized larger family commercial farmers, they are the ones with their investment; the requirement that their management and their operation be such that they cannot take off-the-farm jobs are the ones who are going to get hurt the hardest. They are getting hurt the hardest, and the smaller farmer that can take an off-the-farm job, come home in the evening or on the weekend, farm his operation which is no longer the dependent source of his family living because he has an off-the-farm job, is the one that will be there much longer in a cost-price squeeze than the larger commercial family farmer who has this management where he cannot leave it, where he has his investment tie-up.

This is the reason that there are so many of the larger and medium-size family type operators, that with the youth leaving the farm as it is, you are going to find that the back of the family-type agriculture can be broken very quickly unless something is done about a fair price.

Senator MONTROYA. I just have one question. How many farmers do you have in your farm organization?

Mr. STALEY. This is the only question asked all day——

The CHAIRMAN. I asked him awhile ago. It is classified.

Mr. STALEY. The reason I would like to have the opportunity to explain it, our delegates have voted, and the reason is in a bargaining group you are dealing with the largest corporations in America, and with those you do not tell them how much strength you do have or you do not have. They have always recognized our strength and we have the largest farm meetings that have ever been held.

The CHAIRMAN. Can you answer this question? Are you bigger than the Farmers Union?

Mr. STALEY. I would not care to comment on the other organizations. All I can say is that we have established many times the bargaining power of any group because we are in a unique field.

The CHAIRMAN. That would not be classified, would it?

Mr. STALEY. I do not even know the Farmers Union strength. We do not pay any attention to the other organizations.

Senator McGOVERN. Mr. Staley, what rough percentage of the producers of a given commodity in any area do you feel you have to have participating in order to have an impact on the market?

Mr. STALEY. Senator, we have said—and this I can tell you, and these are the figures that we will give—is the amount of production. This is important in bargaining.

Senator McGOVERN. Yes.

Mr. STALEY. The amount of production. We do have now on some of the major commodities as much as 30 percent of the total production on some of the major commodities that are represented by our members. We felt from the beginning that anytime we could get 25 to 30 percent of the production brought together, we could be effective in bargaining. We have reached that point of being effective. We feel to be the controlling factor to get a fair price level it takes somewhere from 60 percent on up; 60 percent is a minimum to be the controlling factor. In other words, by that I mean so we can absolutely set the price for our products.

Senator McGOVERN. You do not have any fund to assist your members while they are holding commodities off the market.

Mr. STALEY. No, we do not. Of course what we have tried to do, we have tried to be versatile enough that the processors cannot completely take advantage of the situation after a holding action by being willing to go back in again now that we have enough strength. And usually after a holding action they have had enough for awhile, and the prices may drop shortly, but they have always bounced back, and you have a lot of lighter livestock going in which reduces the tonnage which builds the demand afterward for awhile, and this has not been a serious problem the way we have strategically handled the situation.

FEED GRAINS

The CHAIRMAN. Mr. Staley, you stated a moment ago in answer to a question by Senator Mondale that you favored the present program and that it should be extended for 4 years. Of course you know that the present program is a temporary program.

Mr. STALEY. Yes.

The CHAIRMAN. You would want to make it more or less permanent, would you not?

Mr. STALEY. Well, I do not see as there is too much difference between a 2-year program and a 4-year program that is permanent because we already have had 4 years.

The CHAIRMAN. I understand that, but in the meantime it was proposed to present a new program, one that would not be so costly, and corn happens to be the only commodity which the farmers can produce without any marketing penalties or without any marketing control. Do you think that is right?

Mr. STALEY. Well, of course when you analyze the cost of the program—and this is one of the figures that we always have to have in our minds, and general public acceptance—the cost of the program, although it is a voluntary program—I believe our people did a little figuring on it, and we do not have all the facilities that the Government has by any means—but the cost of the harvested acres as such has not been too bad compared with some of the other commodities.

The CHAIRMAN. The cost to the taxpayers of the corn program for the past 4 years has been in the neighborhood of \$6 a bushel for the amount of corn that was surplus. We started out 4 years ago with a surplus of 84 million tons. We have reduced that only 26 million tons at a cost of \$5,400 million. Do you want to continue a program of that kind?

Mr. STALEY. Well, here is what I would say: There are several factors to consider. I do not think that you can consider that the cost can be placed on just what you kept down in the way of production. I think you have to consider the reduction in the amount of tonnage, of how important this is to the entire agricultural economy and what it has cost.

After all, there are so many more corn producers than there are many of the other commodities. You are talking about a lot of farmers, some 21½ million farmers that produce corn, something in that neighborhood; is that not right?

The CHAIRMAN. I do not know. I presume that about every farmer in the country produces corn.

Mr. STALEY. That is correct.

The CHAIRMAN. Over 3 million farms.

Mr. STALEY. I did not even know it was that high.

The CHAIRMAN. Yes

Mr. STALEY. I knew it was 21½ million anyway.

The CHAIRMAN. All other commodities that are protected by way of price support have acreage controls. Corn is the only one that does not have it. That is why, in my opinion, you have had such a large production and surplus of corn. Personally, I voted very reluctantly for the first temporary program, that is 4 years ago, until we could get something else. But now you have had it 4 years with the costs I have just indicated, and the cost this year will be in excess of \$1,300 million, and you want to continue that for another 4 years.

Mr. STALEY. Well, I would say this. You have got two or three problems as we would see it. The first one would be getting a mandatory bill passed at this point. This you would know far more about than I would.

The CHAIRMAN. We can go back to the present law, you know, if we do not want to extend it.

Mr. STALEY. But when you do that the parity is set at what?

The CHAIRMAN. 50 percent of parity to 90 percent of parity, but within that range it has to be fixed at a level that will not increase Government stock. And that would be 50 percent of parity.

Mr. STALEY. 50 percent of party.

The CHAIRMAN. That is right.

Mr. STALEY. This is correct. Well, I do not think that we could stand that type of a shock in agriculture.

The CHAIRMAN. How much of a shock could you stand so as to cut down on the cost of this program?

Mr. STALEY. Well, I would say that you cannot stand any unless you can figure out a way that will increase the farm income without jeopardizing the entire economy.

The CHAIRMAN. But you would prefer having farm income come from the marketplace.

Mr. STALEY. This is correct.

The CHAIRMAN. Instead of from Government supports.

Mr. STALEY. This is fine, this is correct.

The CHAIRMAN. I am in full agreement with you.

Mr. STALEY. This is correct.

The CHAIRMAN. And as long as Uncle Sam furnishes the money to maintain price levels, in which case these payments form a large part of this income, why I do not believe we are on the way to settling our farm problem. The thing that is going to happen to us is that the consumers in time will revolt against that.

Your argument to make it 4 years so as not to have it up before the public quite as often, I was very much impressed with that. It just means in my opinion that if the program were made for 4 years you would not hear anything about it, but as far as I am concerned, I believe that it ought to be exposed to the public, let them know about it. Not only that, but all programs, because it is out of their pockets that this comes to a large extent.

Senator MONDALE. Mr. Chairman, may I ask a question?

The CHAIRMAN. Let him answer the one I have just asked.

Mr. STALEY. I would like to make this statement. I do not think we have anything to be ashamed of, and I am not trying to say conceal it from the public. I think our job is to get across to the public, which we have not done a very good job on, as to the importance of agricultural income, the expenditure that is being expended, in order to show the public that it means something to the man that works in the factory that builds an automobile or the tractor or the man that carries the groceries out of a grocery store even in New York City or wherever it may be. That we are a vital part of the economy.

The CHAIRMAN. You are the most vital part.

Mr. STALEY. Yes.

The CHAIRMAN. Without question.

Mr. STALEY. And I think we can defend easily everything, but the problem of getting it defended is another problem.

The CHAIRMAN. But the point is this though. It would seem to me that all commodities should be treated similarly. The way we go about reducing the cost of surpluses, at least the theory, was that the farmer would get a curtailment in acreage so in that way we could reduce surpluses. But even in that field the farmer has become more and more able to grow more on the same acreage, and even that has not worked too well. But in the case of corn, as I said, we had a temporary program put on the statute books 4 years ago.

Mr. STALEY. That is right, renewed.

The CHAIRMAN. And it has been renewed from year to year, and now you want to make it 4 years. So you are making a temporary program into more or less a permanent program. The thing is that the farmers are producing more and more per acre, which I am proud to see, but it is at Government expense, much of it.

Mr. STALEY. I would say that we have to look, as far as we are concerned, at the alternatives of what we can do. I think we would all agree that it would be a tragic situation not only for agriculture but for the Nation as a whole to have the price support of corn at 50 percent.

The CHAIRMAN. 80-cent corn.

Mr. STALEY. Yes. So I think this means that——

The CHAIRMAN. How about 90-cent corn, just so long as you have a floor is what you need.

Mr. STALEY. The production of corn, the actual cost, of course, by the very statistics shows at the universities that it takes about this much to even produce it, up close to this point.

The CHAIRMAN. I know, but corn to my way of thinking should not be produced by a farmer with Government price supports merely to sell to. It ought to be fed to livestock. That is the theory under which we first supported the price of corn.

Mr. STALEY. 80 percent of it goes to livestock.

The CHAIRMAN. About 85 percent, but here under these programs up to 1961, we had a surplus of 86 million tons.

Mr. STALEY. That is right.

The CHAIRMAN. And of course that hung over the market and had the effect of depressing it, so that the special program in 1961 was put on the statute books in order to alleviate that condition, but it has not worked the way we expected it would work at all.

Now of course you have got some around this table who will argue that if we had not had that program, we would have more corn on hand and and more of this and more of that. Well, I do not believe it could have been any costlier than this present program has been. That has been my argument.

All right, Senator Mondale.

Senator MONDALE. When the emergency feed grain program was adopted, we had approximately 85 million tons of feed grains in storage.

Mr. STALEY. Correct.

Senator MONDALE. Now, as I understand it, we are down to about 57 million.

Mr. STALEY. That is what we understand.

Senator MONDALE. It is estimated it will be down to about 50 million next year assuming the continuation of the program.

The CHAIRMAN. Next year you say?

Senator MONDALE. Next summer. The Secretary of Agriculture testified that absent the program, he anticipated Government stocks would be somewhere in the neighborhood of 125 million tons at this point, which would seem to indicate a substantial reduction in Government stocks now over what would have been the case if it had not been for the feed grain program.

Mr. STALEY. The question, Senator, that I was going to make—the statement that I was going to make to Senator Ellender was at least we are going in the right direction. I do not know whether the Secretary's figures, whether 125 million would have been right or not. But we do know that it has dropped from this 85 statistic?

The CHAIRMAN. 86.

Mr. STALEY. From 86 down to 57. At least we are going in the right direction.

The CHAIRMAN. But look at what it costs, \$6 a bushel.

Mr. STALEY. This is correct, but again this is where I would differ with the Senator, that the cost of the tonnage that you reduced is the amount of effect that you have on the entire agricultural economy. That is where you have to put the cost again, not against just the bushels or the tonnage that you reduced.

The CHAIRMAN. Any further questions?

Senator MONDALE. I am not through.

The CHAIRMAN. Excuse me, Senator.

Senator MONDALE. What would be the more accurate figure in terms of the savings to the Government, the reduction from 85 million or the actual saving in Government storage between what would have been in Government storage if it had not been for this program and what we have now? In other words, the spread between 125 million tons and 57 million tons, that spread rather than the one we have between 85 and 57 on what was previously in Government and what we have now.

Mr. STALEY. I would say that you would have—if the figure had gone to the 125 million, and I guess we would have to assume that these are the best figures available on estimation. You get into the hypothetical situation of sort of a guessing game. But with the difference I would say it would make the cost of the feed grain program look pretty favorable as to what it would cost in the Government storage, besides the tremendous problems you have in the reduction of price undoubtedly to the producer as well.

Senator MONDALE. Have you found that the feed grain program has helped stabilize the livestock prices? Has it been helpful in that field?

Mr. STALEY. Well, they have been stabilized at such a low level until the last 3 or 4 months that it is not the kind of stability we like. Whether it has helped it a little or not, I would hesitate to say, Senator. But undoubtedly without it you would have had important serious problems, and I am sure that the public looking at the storage costs would have been much more aroused than they are over the feed grain payments.

The CHAIRMAN. Any further questions?

Senator MILLER. Mr. Chairman, I think this point ought to be made. There has been a lot of talk about what the situation would have been if we had not had any program. Now in my 5 years around here I have not run into any of my colleagues who were talking about no farm program, and I do not think that this is responsive to the problem at all.

I would like to suggest for the record that the drop in the surplus is almost directly attributable not to the feed grains program but to our greatly expanded exports and our expanded domestic consumption. It has not been a case of where we have been arguing over whether we should have the emergency feed grains program or nothing at all. The argument has been over whether we should have the emergency feed grains program or another type of a program which would not be so costly and which would go in the right direction.

I am just wondering this. You have recommended continuation substantially of this feed grains program. Could we not come up with a better one than what we have now? I am familiar with the fact that we have had a good signup under this program out in Iowa, but to me that does not mean that the farmers in Iowa are delighted with this. I think it is a case of where they have been put into a squeeze between this or nothing at all.

What I think they would like to have is something that would be better. Now, do you not have a recommendation for an improvement over what we have now which will not only do a better job of stabilizing at a higher level the livestock prices, but which will also be less costly to the Government?

Mr. STALEY. I would say that one of the real serious problems we have is the propaganda that has been poured into farmers against a mandatory type of a program. So you either have the choice of a voluntary type of a program along this line or a mandatory type. You have no choice.

Senator MILLER. On that point though you could have a choice between a voluntary program such as this or another voluntary program. We are not limited to just one voluntary program surely.

Mr. STALEY. Well, at least I have not seen any suggestion other than along this line that has any fundamental difference. Whether you want to call it this type of program, a cropland adjustment program, or whatever you want to call it, it is still a voluntary program, and you can put it in different words and a different meaning and maybe we will say adjust it a little bit but you boil it down and you either have a voluntary program or you have a mandatory program. These are the two basics as I would see it.

Senator MILLER. Except I would like to invite your attention to S. 891 which is another type of a voluntary program. I am not saying that this is the perfect answer, but I do suggest to you that we can find many different types of voluntary programs, and what I am hoping is that we can come up with one which will be voluntary but which will be a better program than what we have now.

Mr. STALEY. I would like to say here to Senator Ellender what I think he is thinking. That a mandatory program is probably the only successful program that you are going to have to work over a period of time. The problem that I think you have at this point is the acceptance of it by the farmers because of the propaganda that has been directed against them. I think the theory that has been wrong in the farmer's acceptance of a mandatory program, they have never and I do not think they ever will be satisfied or willing to accept a mandatory program without getting a fair price tied with it. In other words, they are not willing to accept the reductions of acreage and also have a low price level. In order for mandatory programs to be accepted by farmers, they have to have the alternative of being able to get a fair price along with a mandatory program. I think this is——

Senator MILLER. I think you are right in that observation, but I would hope that we would not have to get to a mandatory program where the Federal Government is telling the farmer, any farmer, how much he has got to plant, how much he can grow, how much he can harvest, how much he can market.

To me this would be diametrically opposed to the objectives of your organization.

Mr. STALEY. I would say that for the Government to tell him this would be wrong, but for him to have an opportunity to choose between the type of a program that he wanted to is a different situation. I think that if you were going to this type of a program, which I do not believe would be accepted at this point without education, that it is merely a matter of saying to the farmer: "If you have this much reduction, you can get this much of a price support level. If you do not have this much reduction at this point you get this much support," and vary the cost accordingly, if you were going to that type of a program.

The CHAIRMAN. Thank you very much, Mr. Staley.

Mr. STALEY. Thank you.

(Mr. Staley's prepared statement is as follows:)

Mr. Chairman, members of the committee, I am Oren Lee Staley, president of the National Farmers Organization. I have with me Mr. Harvey Sickels who is our national secretary and legislative representative. We are both farmers and maintain our own farm operation.

The primary objective of our organization is to establish sufficient bargaining power for farmers, so they can price their products at fair price levels at the marketplace. We are making great progress toward this objective. We are now well organized in the diversified agricultural area, with strong organization in almost every county extending from the Pennsylvania line to the western edge of the diversified agricultural area of Kansas and Nebraska, and from the Canadian border into Kentucky and Oklahoma with a growing organization in the States of Tennessee, Arkansas, Florida, New York, New Jersey, West Virginia, Colorado, Wyoming, and Idaho.

This has brought together bargaining strength in agriculture many times greater than any previous efforts. Every member of our organization is a farmer or producer.

The strength of the National Farmers Organization has now reached the point that we are entering the final phase of our collective bargaining program. We are in the actual marketing phase.

We believe that anyone or any organization interested in the welfare of farmers, should do everything possible to maintain and increase farm income.

The income picture for farmers is, indeed, dark at a time when the rest of the economy continues to advance to new record levels. Only farmers themselves, who are trying to dig a living out of soil, realize how serious the cost-price squeeze really is. They face it every day as the prices of the products they produce all go down or remain at low levels, while the price of everything they buy continues to rise.

If this continues, it spells the doom for the family-type farmers because with the high investment required to operate a farm and with the low return, it is only a matter of time until a high percentage of the farmers will either be forced to leave the farm or will decide to leave while they still have an equity. Under these conditions, you cannot expect young people raised and reared on the farms to be able to start farming and, of course, they will have little or no desire to start farming. This is setting the stage for a corporate agriculture. When we hear talk of 2½ million farmers leaving the farm, we would like to point out that many of the farmers expected to be forced to leave will not be the ones actually leaving. The general principle behind this theory is that they will be forced to leave because of the lack of profit. The ones hit the hardest from a financial standpoint will be the commercial family-type farmers. Many of the smaller farmers already have off-the-farm jobs. They can and will stay on the farm longer than anyone else. The Internal Revenue Service has just issued some figures that prove this statement:

From advance data now available in the Internal Revenue Service Document No. 5238 (I-65), we give a breakdown of adjusted gross income classes for farm returns of sole proprietors for 1963. Income is from all sources.

Farm income tax returns of sole proprietors, 1963

Adjusted gross returns	Number of returns	Percent showing profit
Under \$5,000.....	2, 212, 810	68.6
\$5,000 to \$10,000.....	729, 164	60.4
\$10,000 to \$15,000.....	150, 761	63.0
\$15,000 to \$25,000.....	69, 079	60.0
\$25,000 to \$50,000.....	32, 768	48.0
\$50,000 to \$100,000.....	9, 211	36.4
Over \$100,000.....	3, 062	22.3

The family farmers of America have been subsidizing the rest of the population. These farmers have taken lower and lower prices in the last 15 years, which has made food the best buy in America. The efficiency of the family-type agriculture has never been matched in any nation of the world by any other industry. It is, indeed, a sad state of affairs, when many of the people in and out of government, who are responsible for making decisions that vitally affect farm income, do everything possible to keep farm income low. We are aware of the battle some of the Congressmen, U.S. Senators, and the Department of Agriculture have been waging trying to maintain and increase farm income. We realize they are up against well-intended interests and the philosophy that the elimination of farmers is the only answer to the farm problems. We commend these efforts on the part of a few to maintain and raise farm income.

They are having a difficult time getting committed support from other segments of the economy. Therefore it becomes a matter of trying to keep what we have. This is the reason we are pushing so hard to get farmers organized so they can do their part in pricing their products at the marketplace.

As farmers, it irks us no end to hear statements arousing consumers against farmers and farm programs, by talking about increased prices to the consumers. We say consumers cannot expect to get wage increases and still expect the farmer to get the same low price for his products. This is neither a fair attitude on their part, nor is it economically sound. It is time they wake up. Farmers feed and clothe this Nation better than any nation in the world. They deserve to share in the prosperity of the Nation. Unless fairminded citizens realize this, they will kill the goose that laid the golden egg.

House bill No. 7907 will not appreciably increase farm income, but, in most cases, it is probably the best that can be gotten at this time. We are in favor of part of the bill and are opposed to other parts. We feel the feed grain program has now been proven as an effective instrument in reducing supply. We feel that the section increasing the value of wheat is an improvement. We have some organization in the heavy wheat producing area, but we feel it is best for us to support the general position of the National Association of Wheat Growers and the National Grange on wheat legislation.

We want to urge the committee, because of low farm income, to raise the minimum support level allowed.

We are bitterly opposed to the provision allowing soybeans to be planted on diverted acres. This would destroy the soybean price. It does not make sense. Every effort should be made by farmers and the Government to raise the price of other commodities, not bring the price down on a crop that is better than others.

We believe the raising of the level of the percentage of supports that Government stocks can be sold at, would raise farm prices one year, but will result in noncompliance the following year and will make it impossible for a program to work. This could further increase costs, and make the program totally unworkable.

We doubt the feasibility of transferring allotments. We are fearful that this will make more part-time farmers out of full-time farmers and will, in the end, concentrate the allotments in the hands of a few.

We urge the committee to do everything possible to increase farm income. We urge a 4-year extension of the bill. It doesn't make sense to have to battle every 2 years for this type of legislation. It can always be amended in 2 years, but let's give a little longer time for the basics of the bill to work.

We, as farmers, realize we must organize at a fast pace to start accepting more of the burden, so we can price our products at the marketplace. There is one word that can cure most of the farmers' problems. That word is profit.

We thank you for your time. Our legislative representative, Mr. Sickels, will be visiting with you from time to time. We will be glad to answer any questions any of you may have.

(NOTE.—The following statement is from the proceedings of Tuesday, June 29, 1965.)

The CHAIRMAN. Our next witness is Mr. Sam L. Rice, Jr. Will you identify yourself for the record?

**STATEMENT OF SAM L. RICE, JR., PRESIDENT, GRAIN & FEED
DEALERS NATIONAL ASSOCIATION, TOLEDO, OHIO**

Mr. RICE. Mr. Chairman and members of the committee: I am Sam L. Rice, Jr., president of the Rice Grain Co., Toledo, Ohio. Our company is a family-owned business engaged in grain merchandising, in northwestern Ohio. I am appearing today on behalf of the Grain & Feed Dealers National Association of which I am president.

This national association has 1,800 dues-paying members which range in size from the smallest country elevators to the largest feed and grain marketing complexes. In addition, we have 54 State and regional grain and feed associations which are closely affiliated with the national association. These affiliated associations have membership in excess of 17,000 business firms. This statement was prepared and approved by a task force which was appointed at our annual convention.

We appreciate this opportunity to appear before your committee to express our views on the proposed feed grains and wheat legislation with respect to the resale price of Commodity Credit Corporation stocks.

At the outset I would like to indicate our support for some of the important principles embodied in S. 1702. We support voluntary programs designed to adjust production to the demands of domestic and foreign markets.

We are encouraged by the changes in wheat legislation from mandatory to voluntary and the modifications in the feed grain program in 1963 which eliminated the necessity for massive Commodity Credit Corporation feed grain sales. As an example we will take corn. In 1961-62, Commodity Credit Corporation sold 975 million bushels which were in excess of one-half of the off-farm corn sales and acquired 637 million bushels under the loan program. In 1963-64 Commodity Credit Corporation sold 170 million bushels and acquired 75 million bushels—real progress.

We also support the principles embodied in title V designed to encourage the transfer of cropland to alternative uses. The whole farm retirement feature may well assist farmers in making the difficult decision to change employment or retire. Since such programs are attractive to farmers with marginal units or those operated by part-time farmers or by farmers nearing retirement, it should enable these families to make adjustments which would otherwise be difficult.

In assessing proposals to alter the Commodity Credit Corporation resale formula prices, it is important to keep in mind certain characteristics of the minimum sales price and its effect on the voluntary acreage diversion programs.

CCC RESALE PRICE

Generally speaking, when farmers produce less of a commodity than the market will absorb at the support price—as they have quite consistently under recent programs—market prices will rise above the support level. In these circumstances, when Commodity Credit Corporation attempts to limit the price increase by sale of its own stocks at the formula price, as it has in recent years, its resale price tends to establish the market price.

Against this background, one important advantage of increasing the formula price is readily apparent. Both farmers and Commodity

Credit Corporation would receive higher prices for commodities they offer for sale.

Another aspect for consideration involves the impact of proposed changes on futures trading. A widening of the differences between price support and statutory loan resale prices will tend to increase the usefulness of futures markets.

Those who rely upon futures prices to guide their stock acquisitions and dispositions, and buy or sell futures contracts as temporary substitutes for these planned acquisitions and disposition, do so in terms of their own evaluations of price prospects. When the prospect of price change is severely limited, these firms have little incentive to appraise the prospect or to use the futures markets. The range over which prices can change is inherently limited by the 105-percent requirement, which is the chief deterrent to the use of the futures markets. A second deterrent is that the authority which the Commodity Credit Corporation has to sell is not a mandate to sell. The authority which Commodity Credit Corporation has discourages risk capital from entering the market and the lack of mandate prevents Commodity Credit Corporation from being a reliable supplier. Hence, the trade is confronted by an uncertainty for which there is no effective protection. With a wider range, the trade would not only have more scope for decisionmaking related to market forces, but could view with greater certainty the prospect of Government sales at the statutory level.

For two reasons, then, futures markets would be better used if the statutory resale price were to be increased; first, because the range of possible price change subject to the usual supply and demand forces would be widened. Secondly, because the unpredictability of an unusual supply force—Government sales—would be reduced.

A further consideration is that, if price programs in the future are to allow more scope to the marketplace, it is important to maintain the institutional framework under present programs. It is too much to expect markets to perform adequately at some future date if they are permitted to wither away under present programs.

In my business, the ability to hedge gives me price protection against my grain inventory. This price protection not only allows me to work on a closer margin of profit but also affords price protection which is necessary to borrow money to finance grain inventories.

There is still another advantage in increasing the statutory resale price. This involves reducing unnecessary price support activity and, therefore, the costs to the Government of price support programs.

At present, producers who have placed commodities under loan often forgo the privilege of redeeming them even though the price to the Commodity Credit Corporation's resale price, because the difference between the loan and resale price is not great enough to make the grain redemption attractive.

The result is unnecessary expense to the Government in taking over and subsequently disposing of stock which could and should move directly from the producer to the consumer through the marketing system.

I would like to turn now to disadvantages involved in increasing the resale price, two of which seem of paramount importance.

First, voluntary acreage diversion programs are expensive. Their costs are directly related to anticipated market prices. Producers weighing the relative merits of compliance and noncompliance are influenced by the price they expect to get if they forgo acreage diversion and attempt to maximize production. We have already noted that when these programs are effective in adjusting production to disappearance, the Commodity Credit Corporation resale price in effect establishes the market price. It would seem, therefore, that if the resale price is increased substantially, then additional payments must be offered compliers to offset higher market prices anticipated by noncompliers in order to achieve the same program results.

A second important disadvantage of increasing the Commodity Credit Corporation resale price and therefore the effective market price involves disposition of the commodities involved. In the case of wheat, an increase in price resulting from an increase in the Commodity Credit Corporation resale price might require an increase in export subsidies to avoid the loss of export sales.

Corn is competitive in the world market at prices reflecting Commodity Credit Corporation's present resale price. However, an increase in that price, unless offset by an export subsidy, could cut deeply into expanding corn exports, both by retarding the present rapid growth of consumption abroad—as in Japan, for example—and by increasing incentives to some foreign producers.

The important role expanding exports can play in easing the burdens of agricultural adjustment is well recognized. Both Government and private agencies are involved in extensive efforts to increase foreign sales. The effect of an increase in Commodity Credit Corporation resale price upon these efforts should be considered.

Giving full consideration both to advantages and disadvantages, it is our judgment and recommendation that the statutory resale price be increased from 105 percent of the price support loan plus reasonable carrying charges. We believe that 110 percent would be a reasonable level. This would increase the effectiveness of the private marketing system in fulfilling its role, it would reduce unnecessary activity in the price support programs—and therefore Government costs—and it would provide a moderate increase in returns both to producers and to Commodity Credit Corporation on the sale of their stocks. The effect of such an increase on the costs of the diversion programs and on the continued growth of foreign markets is more difficult to assess, but we believe that it would not outweigh the advantages which would result from implementation of the recommended change.

Two further observations are germane if any increase in the resale price is contemplated.

First, the objective of the change probably cannot be accomplished simply by substituting "110 percent" for the words, "105 percent," as they appear in section 407 of the Agricultural Adjustment Act of 1949. Commodity Credit Corporation has accumulated rights to sell vast quantities of feed grains at the price support loan level plus carrying charges in the operation of voluntary diversion programs in recent years. Presumably, these rights would not be terminated by the simple amendment as described unless it is accompanied by strong evidence of congressional intention that it be observed with respect to all sub-

sequent sales of Commodity Credit Corporation's stocks for unrestricted use.

Second, we recommend that the statutory resale price not be made applicable to oilseed. Any increase in the price of soybeans, for example, would further stimulate the substitution of synthetic protein sources for soybean meal in animal feed. Furthermore, while an increase in the price of soybeans may benefit soybean producers in the short run, it should be apparent that such benefits are paid for by other producers who must buy soybean meal either directly or in the form of mixed feed for livestock. Indeed, any increase in the resale price of other grains will result in the loss of acreage planted to oilseeds unless nonprice incentives are provided for maintaining and increasing that acreage. We are pleased to note provisions in S. 1702 for just such incentives.

Thank you.

The CHAIRMAN. Let us go off the record.

(Discussion off the record.)

The CHAIRMAN. Back on the record.

You are a grain merchant?

Mr. RICE. Yes, sir.

The CHAIRMAN. Your complaint is that the Department of Agriculture with such a large amount of grain on hand can come in and sell.

Mr. RICE. Actually, the problem in the free marketing system is that you have the Government both as a supplier——

The CHAIRMAN. I understand.

Mr. RICE (continuing). And a competitor in the marketplace. The problem is the difference between where the Government becomes a seller and where the Government becomes a buyer is not great enough to allow the grains to move through its normal channels. This has actually presented two problems. It presents a problem to our industry in that we find ourselves competing with the Government. But it, also, becomes an unnecessary cost factor to the Government. I have some figures here that go back for some years. I mentioned, for instance, that in 1961-62 the Commodity Credit Corporation sold 975 million bushels. If you go back to those years you will find that our corn consumption that year was 3,995 million bushels, where our production was 3,626 million bushels, or you might say that we had a deficit that year of, roughly, 370 million bushels of corn. We raised 370 million bushels less than we used.

The CHAIRMAN. What would you expect, that the Government refrain from that and let the market go wild and the price of corn go up and let you boys make a few dollars?

Mr. RICE. No. What I am saying is this——

The CHAIRMAN. But that is what would happen.

Mr. RICE. We had a deficit. We have to fill this deficit from some place which would be the Government inventory. Actually, under a situation like this you would expect the Government to place, roughly, 370 million bushels of corn on the market, but what actually happened that year was the Government sold 914 million bushels of corn, and because of the low resale price the Government took under the loan program 658 million bushels of corn that year. In other words, they acquired 658 million bushels of corn, and at the same time sold 914 mil-

lion bushels of corn. Now if the spread between where they became a buyer and a seller were wider, then the Government would not have acquired these 658 million bushels of corn, but would have been a seller of the difference.

The CHAIRMAN. Do you not believe that if the Secretary of Agriculture had used the law as we intended it to be used, that is, at 5 percent of the support price plus the accrued carrying charges, that the price of corn would have been much greater than, say, \$1.25?

Mr. RICE. Yes, sir.

The CHAIRMAN. I learned that yesterday. I did not know that before.

Mr. RICE. They normally start at, that is, the formula price is based on October 1, and, normally, they add to that.

The CHAIRMAN. If corn has been in storage for 5 years and the accrued cost to the Government is \$0.75 a bushel, the corn would have sold for \$1.25 plus 75 cents.

Mr. RICE. It would sell for 105 percent of the support prices, plus carrying charges.

The CHAIRMAN. But only for 1 year.

Mr. RICE. Just for 1 year.

The CHAIRMAN. In other words, the cost of storage and the cost of handling all accrues on the corn for the 4 years of storage, but although it was stored for that period the Commodity Credit Corporation charge would be for only 1 year.

Mr. RICE. In the case of wheat——

The CHAIRMAN. I think that we can remedy that by, probably, having them put the whole charge on.

Mr. RICE. Well then, I think that if you get into this situation you are liable to find yourself back in the area where some of these stocks will acquire such a high cost figure to the Government——

The CHAIRMAN. That is what you want.

Mr. RICE (continuing). That they are not merchantable.

The CHAIRMAN. That is what you are arguing for now.

Mr. RICE. No.

The CHAIRMAN. You are arguing for 110 percent—that would be a much greater cost price than 105 percent.

Mr. RICE. We are talking percentage differences here. Take in the case of wheat, the present loan value of wheat is \$1.25 national average. If the sales price today, was based on the parity price you have a wider spread, but it is based on the loan price. The Government becomes a seller at approximately 7.5 cents a bushel higher price than where it is the buyer. Much of this grain goes under the loan at harvest time. And the spread is so narrow that it is not attractive to the farmer to redeem his loan and to place his grain back into normal channels. Actually, what takes place is that the Government takes over the grain, and then the user of grain turns to the Government to buy its supplies.

There is one other area involved here, and that is this, what happens to the people who have to use this grain? When they know that the Government has this grain available at this price level, and that is not only the case in the United States knowing that, but the whole world knows it—and I have always been one who thought that I would rather have an order on my books than to have a customer loose—I

have always figured that a customer is not safe—you do not know whether the foreign buyer may turn to another source of supply in the interim. I think that the present sales programs has actually discouraged sales because of the taking away, the uncertainty of future price projections.

The CHAIRMAN. Are there any further questions? If not, we thank you very much.

Senator MONTROYA. Mr. Chairman, I have a question.

The CHAIRMAN. Very well.

Senator MONTROYA. I was pleased to see that, in general, your association favors the feed grain program concept—the voluntary feed grain program. As I understand it, if you were to raise the resale price and release the Commodity Credit Corporation's stocks of feed grain, it may have little or nothing to do with the sale of those stocks unless you expand that floor to the PIK sales as well. There are some \$2 billion, I think, in PIK certificates which the Department claims are outside the restrictions that might otherwise govern the release of those stocks.

Mr. RICE. There have been considerable certificates acquired by the Government.

Senator MONTROYA. About \$2 billion worth.

Mr. RICE. Under the feed grain program.

Senator MONTROYA. About \$2 billion worth, and the Department takes the position that they can rereap those stocks at the market value. That might be 100 percent of the loan, and so if you were to raise the release price to 110 of the feed grains and applied that to the PIK certificates, I do not see where it would make any difference—you would still have \$2 billion worth of them.

Mr. RICE. Yes; this is our point. The fact that the Department has acquired these certificates under past programs which have no restrictions—they can sell them at 100 percent of the loan value.

Senator MONTROYA. Do you propose that this 110 percent be applied to the sales of stocks related to these certificates?

Mr. RICE. Yes; we feel that the program would be ineffective, for instance, today I think that the Government inventory of corn, for instance, according to the last figures I have for the week ending June 18, is 408 million bushels. You realize they have \$2 billion worth of certificates with unrestricted use and it would have little effect if this does not incorporate the strong wording that would cover that.

Senator MONTROYA. I gather that you would try to arrive at a release price that you think would make it possible for the private trade to hold and sell stocks, and yet not be so high that it might discourage compliance with the program. Are you trying to figure out something that would provide both alternatives?

Mr. RICE. We recognize, as I point out, that there are disadvantages in raising the sales price. There are, also, many disadvantages at the present level. One of the big fears we have, pricewise, is that we feel that the wider the spread the more freedom the free markets have to operate. And this is good. But we, also, are faced with the problem of providing a market. We have the ability in this country to raise far in excess of what we consume. And the export markets are im-

portant to us in arriving at our position. We feel that the 110-percent level will not be high enough to restrict the export sales or make the present program inoperative, but will raise the spread between where the Government becomes the buyer and where it becomes the seller to a level that will make it more attractive to the farmers so that they can redeem their loan and put this into normal channels and that it will reduce the Government costs, because they will not have the cost of taking it over.

Senator MONTROYA. What is your opinion of the so-called cycling argument that at 105 percent, the private trader or the processor, who might otherwise hold Government stocks, does not do so. He permits the stocks to go into the Government bins and then buys them back at 105 percent plus carrying charges. If you get the release price up higher, we might encourage the trader and the processor to hold his own stocks at his own expense.

Mr. RICE. That is right.

Senator MONTROYA. It would not go in and out of the bins at Government cost.

Mr. RICE. Right. The 105-percent level is more profitable to let the Government hold the inventory, you might say.

Senator MONTROYA. That is right, because they pay the costs and they can buy it back.

The CHAIRMAN. No matter how long the Government holds a commodity, it charges only the storage for 1 year and the carrying charges for 1 year.

Senator MONDALE. That is correct, so that the trader and the processor can sit back and let the Government meet that cost and then pick it out of Government stocks at their leisure.

Senator BASS. And once it gets in there, it never gets out.

The CHAIRMAN. Yes.

Mr. RICE. The problem today is that there is not the incentive from the buyer's standpoint—there is not the incentive to go in and buy it and prevent it from going in, in the first place.

Senator BASS. Once it gets there it would be sealed and locked in.

Mr. RICE. Until it reaches the 110 percent.

Senator MONDALE. On the compliance problem, do you see a greater difficulty in raising the release price and yet encouraging compliance in the feed grain field as well as in the wheat field or do you think that there is a difference there? Some people testified that they feel that we can raise the release price on wheat without discouraging buyers, that if we did this on feed grains that you might discourage compliance unless you increase the price.

Mr. RICE. Well, in the case of wheat your large certificate payment is the incentive to go into the program today.

It is not the loan level, so much as it is the certificate payments. And, therefore, I think that the resale price would not have as much effect on that.

The CHAIRMAN. Thank you very much.

(End of proceedings of June 29, 1965.)

STATEMENT OF ROBERT L. SEARLES, CHAIRMAN OF THE BOARD,
NATIONAL GRAIN TRADE COUNCIL, MINNEAPOLIS, MINN., AND
WILLIAM F. BROOKS, COUNSEL, NATIONAL GRAIN TRADE
COUNCIL

Mr. SEARLES. Good morning, Mr. Chairman.

The CHAIRMAN. Will you identify yourself for the record, Mr. Searles.

Mr. SEARLES. Yes, sir. First of all I want to thank you, Mr. Chairman and the committee, for allowing me to be here.

My name is Robert L. Searles. I live in Orono, Minn. I am president of the Minneapolis Grain Exchange and chairman of the National Grain Trade Council. It is in the latter capacity that I appear before your committee, speaking for the many small grain markets and trade associations which make up the council.

COMMODITY CREDIT CORPORATION RESALE PRICE

Our proposal is that the minimum resale price for Commodity Credit Corporation grains be raised to 120 percent of price support loan levels plus reasonable carrying charges. The 120-percent resale level is recommended because we, as grain marketers, feel that this will allow an area of freedom to commercial grain markets and thus provide reasonable and effective means to gain some of the objectives cited by the President in his farm message. To minimize Commodity Credit Corporation marketing activities while maximizing trade functions appears to be an agreed goal. The President and Secretary Freeman have so stated.

A number of reliable and experienced agricultural leaders, including Members of Congress and marketing experts, have recommended a change to a higher resale price level than the levels effective today. Whether a change to 120 percent resale price level is the best course of action is subject to debate. Some have advocated a 110-percent level; others, 115 percent, and still others, 125 percent.

The National Grain Trade Council does not feel that any one of these levels has an exclusive claim to being correct while all others are incorrect. What is obvious to us is that today's resale price levels are so restricting market activities that it is doubtful that a competitive commercial marketing system can long exist with Commodity Credit Corporation holding so many tools to manage and control grain prices. Our position is that Commodity Credit Corporation's resale price level must permit a reasonable area of market freedom and that Commodity Credit Corporation must, prior to each crop year, set its resale policies and terms and then abide with these policies in order that normal competitive commercial markets can distribute current crops unmolested by vacillating Government maneuvers in the marketplace.

The statutory resale price level for Commodity Credit Corporation's stocks will not, in general, act as a magnet to which the market will be inexorably drawn.

Under such a predictable resale policy every segment of the marketplace can make forward commitments, whether building up inventories or making forward sales. If Commodity Credit Corporation has the

right to change its policies in midstream, the grain marketing economy is driven into a defensive situation. Processors are fearful of large inventories if Government resale policy changes can bring unforeseen losses overnight. Forward sales based on an assumed Commodity Credit Corporation resale policy which is suddenly altered must be avoided to prevent losses. Administrative freedom to alter Commodity Credit Corporation resale policy puts shackles on the market. No one, from the farmer to the ultimate processor, can compete with the Government in the marketplace.

The principle of reliability and predictability is recognized in the basic farm loan procedures. These loans are announced well in advance of the crop year and the provisions are clear, dependable, and predictable. The absence of this principle, once the grain has been taken over by Commodity Credit Corporation, makes it nearly impossible for grain handlers, processors, and exporters to make effective market judgments at those times when they customarily make forward commitments.

This Nation's competitive grain marketing system has long been an efficient, low-cost feature of our economy. The United States cannot afford to replace this with expensive Government market management and control. This, however, is what is taking place today. A check at any grain market will show a declining use of the commercial marketplace and an increase in Commodity Credit Corporation activity. The U.S. Department of Agriculture's own figures show years of grain flow in and out of Commodity Credit Corporation's inventories, a regular cycling of stocks into the loan, then into Government ownership and then out of Commodity Credit Corporation's inventories through the Government's resale policy and procedures.

Figures of the cycling in and out of Commodity's inventories of corn and wheat are as follows:

[Million bushels]

	Commodity Credit Corporation sales	Commodity Credit Corporation acquisitions
Corn:		
1960-61	311	480
1961-62	975	637
1962-63	736	480
1963-64	170	75
1964-65 (estimated)	(325)	(50)
Wheat:		
1960-61	226	250
1961-62	255	113
1962-63	208	223
1963-64	342	67
1964-65 (estimated)	(250)	(240)

We would point out that any excessive takeover of CCC grain is related to CCC's resale price level and sales policies. In other words, today's resale price policies and procedures tend to guarantee the continuation of large and unnecessary cycling of grain stocks through CCC hands. They are hastening the end of competitive commercial grain marketing.

This is not only a matter of shifting marketing functions from open commercial marketplaces to the Government-controlled operation.

The resale price levels and resale policies are closely related to farm income. It is hard to estimate the losses suffered or likely to be suffered in the future by grain producers who under present and proposed programs are unable to take advantage of sales at price levels determined in open commercial marketplaces. If CCC's resale price level and resale policies are not changed, taxpayers will continue to bear the expense of carrying the Nation's inventory of grain as it is cycled in and out of CCC's inventory.

The CHAIRMAN. At that point the fact that you are recommending 120 percent as the minimum resale price. Would that not have the tendency of keeping the Government off the market?

Mr. SEARLES. Not necessarily, sir.

The CHAIRMAN. But it would have to reach 120-plus carrying charges in order for the Government to be able to sell an ounce of it.

Mr. SEARLES. What we are saying is that the purchase of current needs from the farmer will avoid the necessity of Commodity taking over the grain in the first place.

The CHAIRMAN. What is on hand now though would remain in the hands of the Government.

Mr. SEARLES. The net sales out of CCC's present inventory will depend on factors that are not related to the resale price level. It is more related to the effectiveness of acreage control. It is related to the demand in the world market for the particular grain you are speaking of. If there is a shortage of wheat, for instance, in Europe or in Asia, or in India, as we know we constantly have the problem of supplying India with their needs due to their deficit—

The CHAIRMAN. Through Public Law 480.

Mr. SEARLES. These are the factors which draw down the inventory, not the forcing of grain on to our domestic market and then taking it right back again under the loan.

The CHAIRMAN. That may be true as to wheat, but corn you have some increase in export, but the amount of exportation of corn is so much smaller than that of wheat or cotton.

Mr. SEARLES. The corn situation and the demand for feed grain in the world market has to do with the general rise in the economies in Europe and in Japan and in various other parts of the world where they will take our feed grains. This is more the relevant factor than the forcing on to the market of grains in our own domestic market, the point being that as you force them on to the market and force more grain into the loan, you have really gotten nowhere.

You have gained nothing when you sell 1 bushel into the market and take the same bushel or a new one back with the other hand. All you have done is guarantee a flow through the CCC's inventory.

Senator AIKEN. What is your best market for feed grain?

Mr. SEARLES. The best market for feed grains is the United States.

Senator AIKEN. The United States?

Mr. SEARLES. That is right, yes.

Senator AIKEN. Now, would a minimum sales price of 120 percent of the support price result in any change in price on the U.S. market?

Mr. SEARLES. Not necessarily. As a matter of fact, as grain marketers we do not feel that we should be here predicting what any particular year's market would be. As a matter of fact, that is the

nature of the marketplace, that each year's market makes its own decisions.

Senator AIKEN. Are you not recommending a program that will make the most money for you?

Mr. SEARLES. No, not necessarily.

Senator AIKEN. Then you have got to get out, I think.

Mr. SEARLES. No.

Senator AIKEN. You will get fired if you take that attitude.

Mr. SEARLES. Our relationship to this is one of merely——

Senator AIKEN. Charity.

Mr. SEARLES (continuing). Marketing opportunity, not charity at all. No, I would be misrepresenting. I am not saying that.

Senator AIKEN. Do you store grain, too?

Mr. SEARLES. I do not store grain, no, sir.

Senator AIKEN. I do not mean you.

Mr. SEARLES. The grain trade does, yes, sir.

Senator AIKEN. The grain trade stores grain.

Mr. SEARLES. Yes, sir.

Senator AIKEN. What is the carrying charge for feed grains now a year?

The CHAIRMAN. A bushel.

Senator AIKEN. A bushel?

Mr. SEARLES. They are I think about 13.7 cents. It is about thirty-six one hundredths today.

Senator AIKEN. Does that include handling?

Mr. SEARLES. And then there would be elevation whenever it goes in and out of a couple of cents. Not being in the storage business myself——

Senator AIKEN. I was speaking of the business, not your business.

Mr. SEARLES. Yes, sir.

Senator AIKEN. Then would raising the support price——

Mr. SEARLES. The resale price?

Senator AIKEN. By raising the resale price to 120 percent, would that have a tendency to hold the grain in the CCC?

Mr. SEARLES. No. As a matter of fact the tendency would be to reduce the amount of grain in storage in the Government's account.

The CHAIRMAN. You mean in the future.

Mr. SEARLES. If I may continue this, sir, I think some of the answers to your questions will come out of it.

The CHAIRMAN. Proceed.

Senator AIKEN. I was just wondering. I asked the previous witness if there is more money in storing a bushel of grain than there is in selling a bushel of it, if you are a dealer. What would you say about that?

Mr. SEARLES. It would depend on the situation. There would be no pat answer to that, I am sorry.

Senator AIKEN. I did not expect one.

Mr. SEARLES. There is none I could give really.

Senator AIKEN. Would you say 15 cents a bushel was a fair profit for selling a bushel of grain?

Mr. SEARLES. That is an excessive one. The grains are marketed on a much smaller margin than that.

Senator AIKEN. Then there is more money in storing a bushel of grain than there is in selling it.

Mr. SEARLES. Not necessarily. You have costs in operating an elevator. The recent history of grain elevators is that they are going out of business. It must be a losing proposition.

Senator AIKEN. We are reducing the amount we are storing, are we not? Is that not why they are going out of business?

Mr. SEARLES. The storage space was overbuilt in the fifties and now it is a losing proposition for a great many.

If I may, sir?

The CHAIRMAN. Proceed.

Mr. SEARLES. These costs to the taxpayer would be greatly diminished if Government programs were operated within guidelines encouraging the private segment of our economy to carry its own inventory bought from farmers rather than depending on the Government as a source of supply. The original intent of farm programs was to help farmers obtain more income including, where possible, more income from the marketplace. The intent of those programs was not to reduce farmers' income by holding a restrictive lid over open competitive commercial markets.

Compliance with the programs appears to be the main reason why this proposal is opposed by the administration. However, it does not appear likely that a possible gain of 15 or 20 cents a bushel in commercial market prices—and I emphasize the word "possible"—would take a wheat farmer out of a program which pays him a direct benefit as large as that represented by today's two certificates covering domestic and export quotas. The proposed single certificate value for 1966 and later years is a compelling lever to keep wheat producers in the program. It is difficult to follow the reasoning which could claim otherwise. The direct payments are so much higher than the possible market gains to which we refer that there is really no comparison.

In other words, raising the CCC resale price for wheat is probably the safest move that could be made. By "safe" I mean safe from any harmful effects they might have on the program itself. It could increase farm income, reduce CCC costs in handling unnecessary bushels in the loan program, and return marketing functions to commercial trade channels. Those whose lifelong efforts have been in the agricultural marketing area have difficulty finding fault with this recommendation. Whether the resale level should be raised 5, 10, or some other percentage does bring out some divergent views. However, virtually all agree that the present minimum resale price level is much too restrictive, and unnecessarily so.

Raising the resale price for feed grains may present some different problems, mainly because the direct payments in the case of feed grains are not of the same size that they are in wheat. It would be unfair and possibly deceptive if I were to avoid full consideration of the pros and cons here. The combination of a direct price support payment of 20 cents per bushel for corn and additional diversion payments for reducing acreage represents a cash-in-hand incentive to be part of the feed grain program. Balanced against this is the possibility of increased market return if the resale price of corn were to advance to 120 percent of the loan level. What we are looking at, therefore, is a pro-

jection by a corn farmer of sales of bushels from increased acreage, with the hope that he can sell all his bushels at the top of the market as that market is influenced by weather, by domestic demand and by export requirements.

Compare this with a 20-cent direct price support payment plus diversion payments. It is possible to start to worry about compliance, but there is certainly no case of program-wrecking involved. The possible gains appear to outweigh possible losses, and therefore we recommend increasing feed grain resale levels to 120 percent.

However, in this recommendation there is no all-or-none connotation. Any increase over today's restrictive resale levels will constitute an improvement for farmers, for markets, and for program economy. It would be a serious mistake if the decision were made not to adopt an increase to 120 percent and then leave the loan level or the 105-percent level as an albatross around the neck of agricultural marketing, particularly the producer segment of grain marketing.

We wish to have this issue decided in the full light of all available facts. We are by no means basing our arguments solely on the recent transition from old to new commodity programs. What we are faced with now is a culmination of years of accelerated CCC intrusion into grain marketing. This intrusion, described as necessary to liquidate a surplus or for other reasons, has involved all sorts of special sales programs, most of which merely replace sales which would normally be handled through competitive commercial markets using supplies from the current crop at the time of the sale.

I refer to the use of special freight rates available to the CCC enabling that Corporation to undercut and dominate grain markets, particularly in grain deficit areas of the country. Good competitive market judgment usually does the job of distributing grain economically, but there is no firm or individual trader smart enough to compete with the Government. The CCC can always undercut you and replace its losses later from the Treasury.

I refer also to special price changes and programs used whenever the mood is right, and to changes in terms, other than price, which effectively bypass commercial markets when this is the Government's desire.

Witness one of our most recent examples. Beginning a week ago today the CCC announced that it would entertain offers to swap or exchange CCC-owned hard wheat of 13 percent protein for hard wheat of 10.5 percent to 11.49 percent. The net effect of this is to use CCC stocks to supply a need which should come from commercial market supplies. Ask yourself what this does to the quality wheat producer of North Dakota, South Dakota, Montana, or Minnesota, who finds himself denied sales of higher protein wheat by the CCC preempting his opportunity to increase his income. This is another example of marked intrusion by CCC to the detriment of farm income.

I suppose, as has happened in years past, that this replacement of the market demand by CCC intrusion will result once more in a larger takeover of protein wheat by the CCC next year. More cycling of grain, more expense, more supplies to be "sold out" again in years to come.

I am here to say that this is wrong, that it has to change if such in-again, out-again maneuvers are not ultimately to drive everyone else

out of grain marketing, leaving the producers and the consumers to the tender mercies of a single noncompetitive marketing agency whose decisions would be all-powerful and virtually subject to no review or check.

We do not recommend that the CCC withdraw entirely from the market. What we propose is that the CCC be required to leave a reasonable area of market freedom, set its resale policy, terms and procedures, and then stick with them so that normal competitive commercial markets can distribute current crops unmolested by vacillating Government maneuvers in the marketplace.

A final factor in this CCC resale matter deserves closer attention than it has received to date.

This is the claim by the USDA that it has the dual responsibility of keeping feed grain prices high for producers through the loan, and, at the same time, also has the duty of keeping prices low for livestock feeders. How can this function be performed without completely replacing competitive markets? It is only by a money-losing operation that both sides of any market can be promised "protection." And is such a policy a permanent one for the CCC? Will the Government always have this function of keeping feed prices down as well as up? If this is a permanent policy, then the setting of a single price by law (such as in the case of gold) might be more efficient and reduce program costs considerably.

But if such a policy is in fact part and parcel of future feed grain marketing, then we must all face the fact that open public commercial markets are a thing of the past. This is a very basic national marketing question which must be answered when the decision is made in the weeks and months ahead on the CCC resale price levels and resale policies.

Once again, it is the considered recommendation of the National Grain Trade Council that the CCC minimum resale price for grains be raised. Our organization recommends 120 percent as a proper level to consider, but will not reject any increase which the Congress may find acceptable in the national interest.

Thank you, gentlemen.

The CHAIRMAN. How long have you been in the grain business?

Mr. SEARLES. About 20 years, sir.

The CHAIRMAN. 20 years.

Mr. SEARLES. Yes.

The CHAIRMAN. What would happen to the farmer if the Congress were to decide to put in reserve all of the surpluses we now have on hand?

Mr. SEARLES. The ones that exist today?

The CHAIRMAN. That exist today, and forget about support prices, just let the farmer go his way.

Mr. SEARLES. That is an interesting question.

The CHAIRMAN. I would like to get your view on that.

Mr. SEARLES. And these surpluses would be insulated from the market?

The CHAIRMAN. Oh, yes.

Mr. SEARLES. They would not be sold at any price?

The CHAIRMAN. It would not be sold. It would be retained just in case of a drought.

Mr. SEARLES. You mean you would have a resale price at 150 percent or way up somewhere.

The CHAIRMAN. Yes.

Mr. SEARLES. I have great faith in the farmers today being a lot more literate as far as marketing procedures are concerned, and supply and demand knowledge is much more widespread than it used to be. I think they would adjust their productive capacity, given a situation like this, knowing ahead of time—say they knew a year ahead of time. I have faith in the farm community adjusting its production to the available demand.

The CHAIRMAN. They have had these programs now for quite some time.

Mr. SEARLES. I know it.

The CHAIRMAN. And I am sure they have learned about them.

Mr. SEARLES. Yes.

The CHAIRMAN. And what is your prognostication as to how long it would be before they adjusted the supply and demand?

Mr. SEARLES. I think if they had knowledge of the proposal that you are reciting here, if they had it at least a year ahead of time, that they would adjust just as they do in the production of all of those commodities which are not subject to price support. But this is a great expression of faith. It is not based on any knowledge of what they would do. I guess I would not be competent to forecast that.

The CHAIRMAN. As I understand, your idea is to get the Government out of the feed business.

Mr. SEARLES. I think the Commodity Credit Corporation's programs have a standby function which has merit, and this is my own personal view. But the merit is lost when the Corporation's functions become price depressing, when they dominate the marketing of the commodity involved. I believe they have an advantage in providing a floor, and possibly a resale level which would protect consuming and feeding interests and processing interests, but in between there should be an area where markets are able to operate within reason.

We always say within reason. I think we are talking about 1965 views of what reason is. Thirty years ago people would have said, "Do not have them in the market at all." Today this is not the view at all.

The CHAIRMAN. I do not know what the average length of time corn and other feed grains have been in storage, but the cost is around 15½ cents per bushel for storage and overhead, interest, and so forth.

Mr. SEARLES. That is where you have interest on the money.

The CHAIRMAN. Everything. I mean the whole cost to the Government.

Mr. SEARLES. Yes, sir.

The CHAIRMAN. And under the law as it now stands, the grain would have to sell for \$1.05, the loan rate plus the carrying charge. Now the average length of time that these grains have been held by the Government is around 2 years at least, some of them as long as 5 years.

Mr. SEARLES. Some more, yes, sir.

The CHAIRMAN. Two years would be \$0.30 plus \$1.05, which would mean \$1.35 corn if all the carrying charges were included. Do these charges carry over from year to year?

Mr. SEARLES. It has not been the practice to carry the carrying charges forward for more than 1 year, although this is an actual cost to the Government, and the buildup over the year if the Government does carry grain say for 4 or 5 years, these costs are there. But in the resale price the reasonable carrying charges are only added on for a particular year, and then they are dropped off.

The CHAIRMAN. Are you sure of that?

Mr. SEARLES. Yes, sir.

Senator JORDAN. Yes.

The CHAIRMAN. Is that under the law?

Mr. SEARLES. That is under the law.

The CHAIRMAN. I have been on this committee a long time now, and I am learning something.

Mr. SEARLES. And the adjustment usually takes place on July 1 and on October 1 for corn.

Senator AIKEN. You would add only 1 year's carrying charge to 120 percent.

Mr. SEARLES. That is right.

The CHAIRMAN. I never knew that for sure. I want to get the authority for doing this, and we will put it in the record at this point, and in addition to that I would like to have inserted in the record at this point the actual cost over the past 5 years to the Government of storing all of our commodities—wheat, tobacco, all of them—a table indicating the yearly cost.

Senator AIKEN. And the carrying charges are all put on an expense account.

The CHAIRMAN. In other words, each commodity, what has been the cost to store corn per bushel, wheat per bushel, cotton per bale, and so forth, over the last 5 years.

(The information referred to follows:)

(NOTE.—The following statement was supplied by the Department of Agriculture:)

DETERMINATION OF SALES PRICE UNDER SECTION 407 OF THE AGRICULTURAL ACT OF 1949

Section 407 of the Agricultural Act of 1949, as amended, provides in part as follows:

"The Commodity Credit Corporation may sell any farm commodity owned or controlled by it at any price not prohibited by this section. In determining sales policies for basic agricultural commodities or storable nonbasic commodities, the Corporation should give consideration to the establishing of such policies with respect to prices, terms, and conditions as it determines will not discourage or deter manufacturers, processors, and dealers from acquiring and carrying normal inventories of the commodity of the current crop. The Corporation shall not sell any basic agricultural commodity or storable nonbasic commodity at less than 5 per centum above the current support price for such commodity, plus reasonable carrying charges: * * *. The foregoing restrictions shall not apply to * * *."

The legislative history of the quoted provisions is as follows. As introduced S. 2522 provided:

"The Commodity Credit Corporation may sell any farm commodity owned or controlled by it at any price not prohibited by this section. It shall not sell any such commodity at less than the current support price for such commodity, except that this restriction shall not apply to * * *."

The Senate Committee on Agriculture and Forestry amended this provision "to provide that in selling such commodity the costs and expenses incurred through handling charges, transportation and similar charges will be included in the selling price" (p. 2, rept. No. 1129). The amended provisions read:

"The Commodity Credit Corporation may sell any farm commodity owned or controlled by it at any price not prohibited by this section. It shall not sell any such commodity at less than the current support price for such commodity plus all costs and expenses to the Corporation, including interest, storage, insurance, and transportation charges, as determined and approved by the Secretary of Agriculture, except that this restriction shall not apply to * * *."

The House bill (H.R. 5345) did not contain any of these provisions. Upon referral to the Senate committee, the language of H.R. 5345 was amended by the substitution of the provisions of S. 2522.

In debate on the House bill, Senator Anderson offered the following amendment, which was adopted:

"The Commodity Credit Corporation may sell any farm commodity owned or controlled by it at any price not prohibited by this section. In determining sales policies for basic agricultural commodities, the Corporation should give consideration to the establishing of such policies with respect to prices, terms, and conditions as it determines will not discourage or deter manufacturers, processors, and dealers from acquiring and carrying normal inventories of the commodity of the current crop. The Corporation shall not sell any basic agricultural commodity at less than 5 per centum above the current support price for such commodity, plus all accrued charges, including interest on such commodity from the first day of the marketing year in which such sale is made. The foregoing restrictions shall not apply to * * *."

Senator Aiken pointed out what he considered two weaknesses in the amendment (Congressional Record, Oct. 7, 1949, at p. 14352). One was that the sentence with respect to establishment of sales policies "might give the Commodity Credit Corporation the prerogative of determining what a fair price should be." The other concerned the provision for adding accrued charges and interest, Senator Aiken stated:

"I understand that provision will prevent the Commodity Credit Corporation from breaking the price of cotton at the present time, and probably from now until the beginning of the next crop year. To that extent it would prove to be beneficial. However, I can conceive that if the Commodity Credit Corporation should acquire a sufficient quantity of surplus cotton for it to be carried over for a 4- or 5-year period, and if the Commodity Credit Corporation at the end of 4 or 5 years had an opportunity to sell some of that cotton, but had to include all charges, storage, interest, handling and so forth, the CCC might be required under the law to hold the price so high that it simply could not dispose of the commodity at all."

The section was given its present language in conference. In the conference report (No. 1459 to accompany H.R. 5345), it was stated at page 18:

"In determining general sales policies for basic agricultural commodities or storable nonbasic commodities, the Commodity Credit Corporation and the Secretary of Agriculture are required to establish such prices, terms, and conditions as will not discourage or deter manufacturers, processors, or dealers from acquiring and carrying normal inventories of the current crop of the commodity. The Corporation is not permitted to sell any basic agricultural commodity or storable nonbasic commodity at less than 5 percent above the current support price for such commodity, plus reasonable carrying charges. *In determining reasonable carrying charges the Secretary or the Corporation is not required to compute the actual cost incurred in carrying the commodity, but it is intended that there should be established a reasonable amount for carrying charges sufficiently realistic to discourage manufacturers, processors, and dealers from relying on Commodity Credit Corporation stocks as a source of supply rather than carrying normal inventories of their own.*" [Emphasis supplied.]

After enactment of the section, Commodity Credit Corporation has consistently applied a formula in the establishment of its sales prices for unrestricted domestic use under which there is added to the base price of 105 percent of the current price support loan rate for each commodity subject to the statute a reasonable amount for carrying charges determined by the Corporation to be sufficiently realistic to discourage manufacturers, processors, and dealers from relying on Commodity Credit Corporation stocks as a source of supply rather than carrying normal inventories of their own. This formula has been applied afresh at the beginning of each marketing year. The carrying charges are not necessarily actual charges, but are established to achieve the objectives of the statute. They are applied uniformly to the base price without regard to the time when the commodity was taken into Commodity Credit Corporation's inventory, that

is, so as to effect a uniform price for the commodity and not price the older stocks at ascending values. This practice of the Corporation is in accord with the statute and the legislative history.

Annual commercial storage rates on certain price-supported commodities, by fiscal years

Commodity and unit of measure	1965	1964	1963	1962	1961	1960
	Cents	Cents	Cents	Cents	Cents	Cents
Oats.....bushels..	9. 855	10. 220	10. 220	10. 220	10. 220	11. 680
Barley.....do.....	13. 14	13. 505	13. 505	13. 505	13. 505	16. 425
Corn.....do.....	13. 14	13. 505	13. 505	13. 505	13. 505	16. 425
Flaxseed.....do.....	13. 14	13. 505	13. 505	13. 505	13. 505	16. 425
Grain sorghums.....do.....	13. 14	13. 505	13. 505	13. 505	13. 505	15. 425
Rye.....do.....	13. 14	13. 505	13. 505	13. 505	13. 505	16. 425
Soybeans.....do.....	13. 14	13. 505	13. 505	13. 505	13. 505	16. 425
Wheat.....do.....	13. 14	13. 505	13. 505	13. 505	13. 505	16. 425
Rice.....hundredweights..	69. 715	71. 90	71. 90	71. 90	71. 90	71. 90
Cotton: ^{1 2}						
Nonreconcentrated:						
Loan.....bales..	\$4. 92	\$4. 92	\$5. 52	\$5. 52	\$5. 52	\$5. 52
Owned.....do.....	4. 56	4. 92	5. 52	5. 52	5. 52	5. 52
Reconcentrated:						
Loan.....do.....	4. 56	4. 56	5. 16	5. 16	5. 16	5. 16
Owned.....do.....	4. 56	4. 56	5. 16	5. 16	5. 16	5. 16
Dairy products:						
Dry.....hundredweight..	(3)	(3)	(3)	(3)	(3)	(3)
Cooler.....do.....	(4)	(4)	(4)	(4)	(4)	(4)
Freezer.....do.....	(5)	(5)	(5)	(5)	(5)	(5)

¹ Compressed cotton and flat cotton stored in warehouses operating compress facilities.
² CCC-owned cotton reconcentrated on competitive bids range between \$1.20 to \$4.44 per bale per year.
³ Negotiated rates range from 36 cents to \$1.20 per year.
⁴ Negotiated rates range from \$1.20 to \$2.40 per year.
⁵ Negotiated rates range from \$1.80 to \$3.60 per year.

Storage and handling costs incurred on commodities under the price support program, fiscal years 1960 through 1964

[Thousands of dollars]

	1960	1961	1962	1963	1964
Barley.....	\$11, 651	\$8, 740	\$4, 934	\$3, 980	\$4, 642
Corn.....	137, 597	132, 418	117, 549	93, 188	87, 918
Flaxseed.....	264	1	(¹)	132	1, 108
Grain sorghum.....	86, 029	82, 345	89, 910	85, 300	85, 261
Oats.....	2, 676	1, 221	1, 038	1, 549	2, 072
Rye.....	739	633	532	181	129
Soybeans.....	3, 283	1, 081	929	3, 798	142
Wheat.....	190, 786	165, 948	156, 104	144, 905	139, 645
Cotton, upland.....	31, 995	22, 617	7, 809	22, 564	29, 975
Dairy products.....	2, 652	4, 437	9, 219	15, 149	10, 248
Other commodities.....	6, 464	4, 524	3, 185	4, 722	2, 872

¹ Less than \$500.
NOTE.—Information for 1965 fiscal year not yet available.

Mr. SEARLES. Relating to what you are speaking of, sir, the trade has been very careful to explore the possibilities under our recommendations here, and I have not found anyone who will disagree with the projection that the Government will store less grain under this than they do under today's system, and the reason is this. That the trade, with a wider area of market freedom, will carry more of its own inventory than it does today, and it is automatic.

The CHAIRMAN. If the Department of Agriculture has been following that practice, I would be inclined to raise it from \$1.05.

Mr. SEARLES. This is one of our proposals. It will cut the costs of carrying existing supplies because part of them will be in channels that

are not there today. I cannot tell you exactly how much because it will depend on each industry and each member of each industry.

Senator AIKEN. Mr. Chairman, I think Mr. Searles has given us some very good testimony. I still think he is looking out for his own people.

Mr. SEARLES. Of course, naturally. I am a free marketer.

Senator AIKEN. This is true of every witness who comes here. If they are not, they are crazy.

The CHAIRMAN. I am not blaming Mr. Searles at all. On the contrary, I commend him for coming here and protecting his interests.

Mr. SEARLES. I think our interests are identical with national interests in this respect.

Senator AIKEN. With reference to what he said about farmers' controlling their own production and looking after their own market better than they used to—I recall about a dozen year ago they told us if we did not have Government controls we would see the price of hogs get to 10 cents a pound. I think once it got down to 14 cents a pound. Today it is about 23 cents a pound, which is somewhat over 100 percent of parity. This relatively high price has been achieved through the efforts and planning of the producers themselves.

Mr. SEARLES. I may be a little overconfident about the farmer's own judgment, but I am and I will have to say so.

Senator AIKEN. That would not have been true 15 years ago.

Mr. SEARLES. I agree. I think the marketing sense and knowledgeability of the average producer of the grains now under price support is much greater than it used to be.

Senator AIKEN. And more of them subscribe to the Wall Street Journal.

Mr. SEARLES. Well, I believe so; yes, sir.

The CHAIRMAN. Any further questions?

Senator JORDAN. May I ask just one question?

The CHAIRMAN. Proceed, Senator Jordan.

Senator JORDAN. Mr. Searles, you recommend that at the beginning of the crop or whenever you want to set it, that the Secretary of Agriculture state the market price for that year and stick to it?

Mr. SEARLES. I believe that the minimum should be stated by law, legislative action. But in addition to the minimum sale price, there are many other terms and considerations which are trade things. I will not bore you with all this, but they make decisions all the time. Like this last one to swap protein wheat for ordinary wheat. These decisions should be set ahead of the crop year. They should say what they are going to do, and then the people in the trade could decide what inventories they could carry, how they could carry on their business, and with a full knowledge of what the law is.

Senator JORDAN. There is a great deal of, I think, justified dissatisfaction with the fact that the Secretary of Agriculture has fixed the world price on cotton, for a year. That just leaves us here with the umbrella. Brazil and everybody else that raises cotton, they sell all their cotton at a one-half cent or three-eighths of a cent under us, and when they sell out, we sell some cotton. That should be left flexible from day to day.

Mr. SEARLES. This is a proposal for sales in the domestic market for unrestricted use. This is the kind of thing that goes into domestic

trade. The export programs, as we all know, are intimately related to world competitive situations. How do we stack up with Australia, Argentina, Canada?

Senator JORDAN. I understand that of course.

Mr. SEARLES. They have to have flexibility in setting the export subsidies.

Senator JORDAN. You are speaking entirely here of domestic consumption.

Mr. SEARLES. Yes, sir.

Senator JORDAN. That makes a great deal of difference of course.

The CHAIRMAN. Senator McGovern.

Senator McGOVERN. I just wanted to make sure I understood this, and that it was clear. As I understand your contention, Mr. Searles, you are saying that the present CCC practice has the effect of requiring the taxpayers to pay the inventory cost that might otherwise be carried by the processors and the private grain carriers.

Mr. SEARLES. The degree of this I cannot tell you, but it is the universal conclusion I have found in the grain trade that commercial inventories under our proposal would be higher than they are today. To what degree, I cannot say.

Senator McGOVERN. Would you say in general though that the program costs will be lower rather than higher under the proposal that you are making?

Mr. SEARLES. Well, there are a lot of factors in that, Senator. One of them would be that you would lower the carrying costs of CCC inventories because they would not be carrying so many. The second would be that any sales made, if there is a net shortage or deficit let us say of corn, any sales made at 120 percent by Commodity Credit Corporation during a net short year would be at a better price, and therefore return more money to the Government than the same sales made at 105 percent. This is obvious.

The CHAIRMAN. Especially if you charge only 1 year. You have had some corn, as has been said, for 5 years.

Mr. SEARLES. Yes.

The CHAIRMAN. You told me something today that I did not think existed.

Mr. SEARLES. I hope I am helpful.

The CHAIRMAN. I will have it looked into.

Mr. SEARLES. Yes, sir.

Senator AIKEN. Mr. Chairman, I think the Department has good lawyers. They specialize in interpretation.

Mr. SEARLES. In further answer to your question, sir, if I may, the number of bushels that go through Commodity Credit Corporation fruitlessly would be dropped to a minimum. I am sure that when Commodity Credit Corporation sells a quarter of a billion bushels worth of wheat and takes in a like amount, that there is not much economy involved as far as the program is concerned.

Senator McGOVERN. I think your statement makes good sense. I just wanted to make sure I understood.

Mr. SEARLES. Those would be the beneficial sides of it. I am sure there are some other considerations.

The CHAIRMAN. Senator Cooper.

Senator COOPER. If the resale price was fixed at 120 percent of the price support plus whatever the reasonable carrying charge is, would any wheat at that price be sold on the domestic market?

Mr. SEARLES. This would depend on the total production of our wheat balanced against the total domestic demand plus the export program.

It is hard for me to project this for any year. If you have a net short year, you would have some sales at 120 percent.

Senator COOPER. As I understand it, your theory is just to cycle the CCC resale. Well, if there is a surplus, and there is a surplus every year, how would that surplus be handled?

Mr. SEARLES. It is not necessarily a surplus every year because I think, as the Secretary pointed out in his testimony, there have been some years where they have reduced the stocks, and this depends on world demand.

Senator COOPER. Generally, though, there is a surplus. We know that.

Mr. SEARLES. Yes, which direction this surplus is going in, this would be the question in each marketing year, and the answer would be it would go down if there is a world demand for wheat and feed grains in excess plus domestic demand, in excess of our own production.

Senator COOPER. Are the inventories held by the trade low at present?

Mr. SEARLES. Very low.

Senator COOPER. You think then that your proposal would increase inventories held by the trade quite largely.

Mr. SEARLES. Yes, this is a universal conclusion that this proposal would increase trade inventories and as such would have to reduce Government inventories.

Senator COOPER. It is very interesting testimony.

The CHAIRMAN. Any further questions?

Senator MILLER. Mr. Searles, I thought you made a splendid statement.

Mr. SEARLES. Thank you, Senator.

Senator MILLER. First, can you give us a pretty good idea of how many months' level of supply of corn we have on hand for domestic use and how many months' supply of wheat we have on hand today?

Mr. SEARLES. I can start out with the wheat part a little better, and I would ask Mr. Brooks here who has got some records with him.

The CHAIRMAN. Can you supply that for the record?

Mr. SEARLES. On the wheat, taking a level of 900-odd million bushels, you will find that the average disappearance during the year runs around 500 million bushels for domestic use. This seems to stay the same even as the population goes ahead. The reason for this is our improved diet, going more to meat products, dairy products, substitutes, so that the bread-eating economy stays at a level while the population goes up.

As far as exports are concerned, as you know we have had big years as the years of 1963 and 1964 when the Russians and Chinese were in the world market to buy wheat to make up a deficit of their own. So when you look at a total year's using, we could have 1 year where you had, say, a major crop failure in Asia and in Europe, and you could seriously cut our wheat stocks, cut them down to the level when this

business of a policy on reserve stocks for national defense, for national security, I am sure would be a priority item in front of your committee. It is not today because the problem is not now in front of you. But 1 year could put us in that position.

Senator MILLER. This is precisely what I am leading up to. But say on the basis of the disappearance in the last 2 years, about how many months of wheat supply do we have on hand and about how many months of corn supply?

Mr. SEARLES. From a domestic point of view you have roughly 22 months' domestic needs of wheat on hand at the end of the crop year.

Senator MILLER. And how about corn?

Mr. SEARLES. I cannot answer that.

Mr. BROOKS. Projected here on this Feed Situation in June they project a carryover of 56 million tons and it disappears at the rate of 15 million tons a month.

Senator MILLER. Roughly 4 months.

Mr. SEARLES. About 4 months on hand. This is ignoring the advent of the new crop of course.

Senator MILLER. I asked you about the figures today.

Mr. SEARLES. Yes.

Senator MILLER. Now earlier this year President Johnson recommended that national security reserves be established, not only feed but food grains as well. Do you have any recommendations as to how many months' supply of corn and how many months' supply of wheat should be established for a national security reserve?

Mr. SEARLES. Yes, sir. We made a detailed recommendation to the Department of Agriculture on this—and it has not been brought up here because it has been deferred as a matter to be considered later, but in general we have taken what amounts to roughly 50 percent of the disappearance for domestic needs plus 50 percent of recent average exports—and said that this would be a reasonable level at which to have stocks of wheat and corn and feed grains on hand.

For wheat this amounted to something a little above 600 million bushels. For feed stocks it ran, as I recall, around 45 million tons.

Mr. BROOKS. That is the Department's estimate, 45 million tons overall on feed grains. Ours would be in excess of that.

Mr. SEARLES. We felt that this policy should not be determined when it is not an emergency, and it is not today. But if you were to be given a combination of a bad year here and one in Asia, we could find ourselves wondering just how it is we would parcel out just what we have left.

Senator MILLER. Why should this not be determined today?

Mr. SEARLES. This is a good question. I do not know the answer. I believe it should. Our association believes that it should. The Council recommends that a policy be established.

Senator MILLER. Today?

Mr. SEARLES. Today.

Senator MILLER. Now, the second question. At the bottom of page 4 you cited an example of the Commodity Credit Corporation's action which aggravated the market situation. I presume that you could document a good many instances of this over the last 3 or 4 years.

Mr. SEARLES. There is quite a bit of decisionmaking that goes on within the Commodity Credit Corporation, changing policies. They act more and more as a grain merchandising firm. They make the decisions based on changing conditions, and as such naturally they beat everybody else out. No one else can competitively stay in the same swim with them.

Senator MILLER. Would you say that over the last 3 or 4 years we could look at the market price for wheat and corn and see when it went down and perhaps relate that to Commodity Credit Corporation sales?

Mr. SEARLES. There are many instances of this, yes.

Senator MILLER. I wonder, Mr. Chairman, if it would be possible to get a record of the CCC disposals by date and market prices immediately before and immediately after. Would that give us a pretty good indication? I think this would be valuable for the record as bearing out what the witness has been testifying to, and it would give us something precise.

The CHAIRMAN. What length of time would you want that to cover, a year or 2 years?

Senator MILLER. Say 1962, 1963, and 1964, for example.

The CHAIRMAN. That can be done.

Senator MILLER. I would like to ask that we do that.

The CHAIRMAN. We will have it. You see, the Secretary of Agriculture is going to return after we hear all of the outside witnesses.

Senator MILLER. I thought it would be helpful to have that in the record before he returns.

The CHAIRMAN. I understand.

(The information is as follows:)

U.S. DEPARTMENT OF AGRICULTURE,
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., July 13, 1965.

Mr. HENRY J. CASSO,
Senate Committee on Agriculture and Forestry,
Senate Office Building, Washington, D.C.

DEAR MR. CASSO: In response to your request to Mr. Jaenke for information for Senator Miller on CCC sales of corn, I am attaching tables of sales beginning with the 1961 crop year.

Sales are made by our commodity office marketing specialists by telephone and confirmed in writing immediately. These quantities are reported weekly and are shown in column 1 and are deducted from our available inventory. Column 2 lists the average Chicago cash corn price for each week.

Actual delivery of the corn may come a few days or weeks after the contract is made. Exact quantities and the cash are recorded in the accounting records of the Corporation at a time subsequent to the making of the sales contract. These are shown in column 3 and column 4, for each month.

I hope this information will be helpful.

Sincerely yours,

TRUMAN J. CUNNINGHAM,
Acting Deputy Administrator, Management.

Commodity Credit Corporation sales of corn, October 1961 through May 1965

Period	Accepted sales contracts (bushels)	Weekly average of cash closing prices at Chicago for No. 2 Yellow corn (cents per bushel)	Sales taken from financial records	
			Quantity (bushels)	Proceeds
1961				
Week ended—				
Oct. 6.....	9,162,093	109		
Oct. 13.....	7,472,755	112		
Oct. 20.....	5,030,306	113		
Oct. 27.....	7,612,274	115		
Total.....	29,277,428			
Month of October.....			36,328,886	\$36,672,020.54
Week ended—				
Nov. 3.....	10,456,274	112		
Nov. 10.....	12,134,532	111		
Nov. 17.....	28,917,905	113		
Nov. 24.....	28,340,883	114		
Total.....	79,849,594			
Month of November.....			43,401,624	44,630,247.43
Week ended—				
Dec. 1.....	27,835,444	114		
Dec. 8.....	61,935,874	110		
Dec. 15.....	49,785,143	112		
Dec. 22.....	33,396,901	111		
Dec. 29.....	29,796,712	111		
Total.....	202,750,074			
Month of December.....			73,977,718	79,566,215.11
1962				
Week ended—				
Jan. 5.....	29,056,344	110		
Jan. 12.....	53,772,967	109		
Jan. 19.....	44,781,033	109		
Jan. 26.....	30,948,889	109		
Total.....	158,559,233			
Month of January.....			109,121,759	114,218,530.07
Week ended—				
Feb. 2.....	22,337,521	110		
Feb. 9.....	19,465,870	111		
Feb. 16.....	17,238,070	110		
Feb. 23.....	14,480,645	108		
Total.....	73,522,106			
Month of February.....			113,850,496	115,250,149.10
Week ended—				
Mar. 2.....	29,202,847	110		
Mar. 9.....	28,957,769	111		
Mar. 16.....	20,355,811	112		
Mar. 23.....	27,502,323	114		
Mar. 30.....	24,709,106	116		
Total.....	130,727,856			
Month of March.....			214,091,495	209,452,810.88
Week ended—				
Apr. 6.....	24,468,046	116		
Apr. 13.....	32,012,673	113		
Apr. 20.....	30,688,808	112		
Apr. 27.....	28,180,963	114		
Total.....	115,350,490			
Month of April.....			159,351,950	173,047,844.66
Week ended—				
May 4.....	18,033,118	115		
May 11.....	12,826,204	116		
May 18.....	8,216,319	117		
May 25.....	2,980,021	118		
Total.....	42,055,662			
Month of May.....			86,514,940	91,516,330.86

Commodity Credit Corporation sales of corn, October 1961 through May 1965—
Continued

Period	Accepted sales contracts (bushels)	Weekly average of cash closing prices at Chicago for No. 2 Yellow corn (cents per bushel)	Sales taken from financial records	
			Quantity (bushels)	Proceeds
1962—Continued				
Week ended—				
June 1.....	3,618,346	117		
June 8.....	6,994,153	116		
June 15.....	7,023,850	115		
June 22.....	3,693,023	115		
June 29.....	2,666,931	115		
Total.....	23,996,303			
Month of June.....			91,946,649	\$110,189,136.33
Week ended—				
July 6.....	1,561,766	116		
July 13.....	2,994,169	115		
July 20.....	2,039,372	112		
July 27.....	3,237,544	112		
Total.....	9,832,851			
Month of July.....			4,739,862	6,093,684.55
Week ended—				
Aug. 3.....	3,342,256	111		
Aug. 10.....	5,562,804	109		
Aug. 17.....	7,262,966	113		
Aug. 24.....	4,446,809	113		
Aug. 31.....	4,480,140	111		
Total.....	25,094,975			
Month of August.....			15,298,448	17,067,454.66
Week ended—				
Sept. 7.....	5,359,486	112		
Sept. 14.....	9,548,932	112		
Sept. 21.....	6,226,326	113		
Sept. 28.....	5,070,205	114		
Total.....	26,204,949			
Month of September.....			22,829,715	22,916,658.20
Week ended—				
Oct. 5.....	12,967,407	114		
Oct. 12.....	7,614,867	112		
Oct. 19.....	23,710,931	112		
Oct. 26.....	22,293,273	115		
Total.....	66,586,478			
Month of October.....			48,071,730	49,751,125.51
Week ended—				
Nov. 2.....	6,283,928	111		
Nov. 9.....	6,882,275	109		
Nov. 16.....	15,444,196	110		
Nov. 23.....	7,523,384	110		
Nov. 30.....	13,259,840	110		
Total.....	49,393,623			
Month of November.....			41,790,605	45,112,244.45
Week ended—				
Dec. 7.....	10,192,399	112		
Dec. 14.....	14,277,571	117		
Dec. 21.....	11,804,494	118		
Dec. 28.....	9,080,911	118		
Total.....	45,355,375			
Month of December.....			44,041,933	48,252,874.74

Commodity Credit Corporation sales of corn, October 1961 through May 1965—
(Continued)

Period	Accepted sales contracts (bushels)	Weekly average of cash closing prices at Chicago for No. 2 Yellow corn (cents per bushel)	Sales taken from financial records	
			Quantity (bushels)	Proceeds
1963				
Week ended—				
Jan. 4.....	15,569,939	118		
Jan. 11.....	19,208,231	119		
Jan. 18.....	26,363,055	120		
Jan. 25.....	26,687,495	120		
Total.....	87,828,720			
Month of January.....			62,297,911	\$69,831,680.25
Week ended—				
Feb. 1.....	33,396,817	121		
Feb. 8.....	29,848,492	120		
Feb. 15.....	25,880,156	122		
Feb. 22.....	16,553,956	121		
Total.....	105,679,421			
Month of February.....			87,654,186	97,535,902.51
Week ended—				
Mar. 1.....	21,556,690	123		
Mar. 8.....	20,176,472	121		
Mar. 15.....	29,291,519	121		
Mar. 22.....	23,252,350	123		
Mar. 29.....	28,821,157	122		
Total.....	123,098,188			
Month of March.....			152,999,412	170,936,772.21
Week ended—				
Apr. 5.....	26,659,567	121		
Apr. 12.....	26,216,455	121		
Apr. 19.....	26,314,649	121		
Apr. 26.....	22,576,415	121		
Total.....	101,767,086			
Month of April.....			96,224,168	106,193,213.50
Week ended—				
May 3.....	22,320,236	121		
May 10.....	21,878,294	124		
May 17.....	13,997,726	124		
May 24.....	11,537,777	124		
May 31.....	8,627,631	126		
Total.....	78,361,664			
Month of May.....			78,610,432	81,712,529.45
Week ended—				
June 7.....	11,021,095	128		
June 14.....	9,455,848	131		
June 21.....	4,253,575	132		
June 28.....	2,941,222	133		
Total.....	27,671,740			
Month of June.....			84,987,788	97,197,917.28
Week ended—				
July 5.....	2,457,616	134		
July 12.....	2,255,802	135		
July 19.....	1,877,357	134		
July 26.....	9,299,164	131		
Total.....	15,889,939			
Month of July.....			1,488,507	1,934,219.48
Week ended—				
Aug. 2.....	3,966,527	130		
Aug. 9.....	1,496,001	133		
Aug. 16.....	1,433,434	132		
Aug. 23.....	2,843,245	133		
Aug. 30.....	1,187,157	135		
Total.....	10,926,364			
Month of August.....			12,695,861	14,833,421.53

*Commodity Credit Corporation sales of corn, October 1961 through May 1965—
Continued*

Period	Accepted sales contracts (bushels)	Weekly average of cash closing prices at Chicago for No. 2 Yellow corn (cents per bushel)	Sales taken from financial records	
			Quantity (bushels)	Proceeds
1963				
Week ended—				
Sept. 6.....	1,665,479	135		
Sept. 13.....	2,148,886	135		
Sept. 20.....	2,742,494	137		
Sept. 27.....	4,474,816	137		
Total.....	11,031,675			
Month of September.....			20,846,425	\$24,547,007.75
Week ended—				
Oct. 4.....	5,338,803	134		
Oct. 11.....	14,084,398	128		
Oct. 18.....	5,689,012	121		
Oct. 25.....	7,021,276	119		
Total.....	32,133,489			
Month of October.....			16,096,342	22,842,337.23
Week ended—				
Nov. 1.....	3,388,217	118		
Nov. 8.....	8,865,434	119		
Nov. 15.....	1,169,075	117		
Nov. 22.....	6,926,007	116		
Nov. 29.....	12,921,655	117		
Total.....	33,270,388			
Month of November.....			14,958,929	18,495,699.49
Week ended—				
Dec. 6.....	14,501,983	120		
Dec. 13.....	2,384,881	123		
Dec. 20.....	4,392,271	123		
Dec. 27.....	1,366,145	124		
Total.....	22,645,280			
Month of December.....			13,510,265	16,758,964.25
1964				
Week ended—				
Jan. 3.....	1,470,173	124		
Jan. 10.....	1,142,054	124		
Jan. 17.....	1,703,901	125		
Jan. 24.....	2,799,524	124		
Jan. 31.....	3,060,734	124		
Total.....	10,176,386			
Month of January.....			24,159,603	30,541,217.51
Week ended—				
Feb. 7.....	2,430,408	123		
Feb. 14.....	2,293,887	122		
Feb. 21.....	2,077,452	121		
Feb. 28.....	2,106,144	123		
Total.....	8,907,891			
Month of February.....			27,358,474	35,265,724.97
Week ended—				
Mar. 6.....	1,329,965	124		
Mar. 13.....	1,837,048	125		
Mar. 20.....	2,863,587	125		
Mar. 27.....	2,201,237	124		
Total.....	8,231,837			
Month of March.....			19,058,069	24,456,875.78

Commodity Credit Corporation sales of corn, October 1961 through May 1965—
(Continued)

Period	Accepted sales contracts (bushels)	Weekly average of cash closing prices at Chicago for No. 2 Yellow corn (cents per bushel)	Sales taken from financial records	
			Quantity (bushels)	Proceeds
1964				
Week ended—				
Apr. 3.....	3,043,334	124		
Apr. 10.....	1,672,144	125		
Apr. 17.....	1,585,412	127		
Apr. 24.....	1,558,472	128		
Total.....	7,859,362			
Month of April.....			13,653,048	\$17,049,297.41
Week ended—				
May 1.....	1,317,883	128		
May 8.....	1,667,214	130		
May 15.....	1,577,775	129		
May 22.....	1,526,269	129		
May 29.....	1,362,547	128		
Total.....	7,451,688			
Month of May.....			8,172,163	10,322,785.17
Week ended—				
June 5.....	1,297,703	129		
June 12.....	1,151,220	127		
June 19.....	1,544,853	127		
June 26.....	1,389,841	127		
Total.....	5,383,617			
Month of June.....			21,902,406	26,148,770.92
Week ended—				
July 3.....	872,778	127		
July 10.....	1,142,897	126		
July 17.....	986,077	124		
July 24.....	633,880	123		
July 31.....	808,516	123		
Total.....	4,444,148			
Month of July.....			1,105,504	1,242,377.37
Week ended—				
Aug. 7.....	1,015,357	125		
Aug. 14.....	992,209	125		
Aug. 21.....	1,013,791	126		
Aug. 28.....	881,312	129		
Total.....	3,902,669			
Month of August.....			4,026,550	5,003,596.16
Week ended—				
Sept. 4.....	608,480	129		
Sept. 11.....	356,136	129		
Sept. 18.....	1,035,535	130		
Sept. 25.....	423,874	129		
Total.....	2,424,025			
Month of September.....			3,515,475	4,177,574.23
Week ended—				
Oct. 2.....	454,264	127		
Oct. 9.....	1,124,738	127		
Oct. 16.....	1,620,168	124		
Oct. 23.....	1,036,622	122		
Oct. 30.....	2,288,066	117		
Total.....	6,523,858			
Month of October.....			4,191,798	5,005,039.78

*Commodity Credit Corporation sales of corn, October 1961 through May 1965—
Continued*

Period	Accepted sales contracts (bushels)	Weekly average of cash closing prices at Chicago for No. 2 yellow corn (cents per bushel)	Sales taken from financial records	
			Quantity (bushels)	Proceeds
1964				
Week ended—				
Nov. 6.....	1,007,021	118		
Nov. 13.....	1,451,159	117		
Nov. 20.....	1,526,164	120		
Nov. 27.....	1,630,737	123		
Total.....	5,685,081			
Month of November.....			4,415,923	\$5,510,509.14
Week ended—				
Dec. 4.....	27,100,228	124		
Dec. 11.....	3,207,171	127		
Dec. 18.....	3,869,070	129		
Dec. 25.....	5,484,502	129		
Dec. 31.....	10,520,939	129		
Total.....	50,181,910			
Month of December.....			4,855,740	5,290,272.86
1965				
Week ended—				
Jan. 8.....	14,086,973	129		
Jan. 15.....	21,740,527	129		
Jan. 22.....	17,348,816	129		
Jan. 29.....	11,124,624	130		
Total.....	64,300,840			
Month of January.....			25,497,367	30,174,414.72
Week ended—				
Feb. 5.....	16,091,035	131		
Feb. 12.....	18,570,860	131		
Feb. 19.....	16,405,508	131		
Feb. 26.....	12,083,719	130		
Total.....	63,141,122			
Month of February.....			61,440,178	72,481,880.24
Week ended—				
Mar. 5.....	17,545,750	131		
Mar. 12.....	14,567,877	133		
Mar. 19.....	10,753,524	134		
Mar. 26.....	8,114,178	135		
Total.....	50,981,329			
Month of March.....			55,129,660	65,337,472.21
Week ended—				
Apr. 2.....	9,267,528	134		
Apr. 9.....	11,556,907	134		
Apr. 16.....	19,433,995	135		
Apr. 23.....	14,616,402	136		
Apr. 30.....	15,422,064	137		
Total.....	70,296,896			
Month of April.....			63,962,681	77,939,293.35
Week ended—				
May 7.....	13,549,215	137		
May 14.....	9,973,339	138		
May 21.....	7,434,036	138		
May 28.....	9,597,413	137		
Total.....	40,554,003			
Month of May.....			41,190,156	49,963,901.46

NOTE.—The quantities shown in col. 1 are reported at end of the week in which the sales contracts are made. Quantities delivered against these contracts are recorded in the financial records of the Corporation in subsequent months. The quantities in col. 3 are the quantities delivered and are reported in the month that the proceeds are recorded in the financial records of the Corporation.

The CHAIRMAN. Any further questions?

Senator McGOVERN. Mr. Chairman, just one more question.

As I understand it, the Department has argued against raising the resale price on the grounds that they need that as a kind of a club to get compliance with the program. Leaving out feed grains for the time being, certainly in the case of wheat whether you have a certificate at 75 cents now and possibly as much as \$1.25, would you not have enough leverage there to get compliance without being concerned about the resale price?

Mr. SEARLES. This has been our conclusion, Senator, that the possible gain in the marketplace from an advance—this is all assuming that the market does advance. As a marketer I am not going to tell you that the market will advance under this policy or that it will not. It is just that the area of freedom needs to be there in order to have this competitive marketing system work. But if it were to advance, and every farmer were to sell all his bushels right at the top of the market, he still would not make the money that he makes by being part of the program.

It would be a very foolish decision indeed for a producer of wheat not to be part of this program.

In answer to your question, I do not see any risk to the compliance side of this in adopting this or even a portion of this recommendation. And when you get down to levels like 110 percent, well, it would be futile to try to make an argument that you would change the compliance with the program because you could not make such an argument. After all, 5 percent of \$1.25 on the farm is what, 7½ cents? Supposing you were to raise it to 110 percent from the present 105 percent and you add 7½ cents income. This fellow balances it against \$1.25. Just imagine the comparison that you are making, 7½ cents versus \$1.25. You know, it is so far apart that you wonder that anybody would make the comparison. And then when you go to 115 or 120, this is why we feel that the 120 is a reasonable level, the 20 percent area of market freedom will accomplish the purposes the President spoke of in his farm message.

Certainly the carrying of inventory should not be something that the Commodity Credit Corporation does. The marketing of grains should be done competitively. These are the purposes involved.

Senator MILLER. When you talk about 120—and you are talking about 10 plus the carrying charges?

Mr. SEARLES. Yes, sir; the carrying charges are added into the loan.

The CHAIRMAN. That is for 1 year only.

Mr. SEARLES. As it goes along and into the resale price, as the year progresses.

Senator MILLER. We could be talking about 150; I mean we could be talking about 30 cents more.

Mr. SEARLES. No; but the difference between the loan and the resale price, this moves up together, because the loan itself moves up with the carrying charge as the year progresses, and so does the resale price. The area of marketing freedom we are talking about exists pretty much the same all year. The two go together.

Senator MONDALE. May I ask a question, Mr. Chairman?

As I understand your testimony, the present 105 percent release price of the CCC discourages concern that might otherwise buy stocks and hold them at their own expense either for processing or for resale here or for export from doing so.

Mr. SEARLES. Yes.

Senator MONDALE. And if the 105 percent resale price were increased—you recommend 120 percent or somewhere in between—we would encourage such private holding of stocks.

Mr. SEARLES. That is right.

Senator MONDALE. You also indicated, I believe earlier, that you were not in a position to state how much private holding of stocks we might anticipate were your recommendations accepted.

Can you give us some idea of what you think we might anticipate by way of reduction in Government cost from stocks that would have otherwise gone to it?

Mr. SEARLES. That is a good question, Senator, and I have tried to develop the answer before coming here. This effort is futile as far as being exact is concerned. I can look at the stocks of wheat in one portion of the wheat market, that is the Minneapolis-Duluth area. I find stocks right now down to very minimum levels of say 1½ to 2 million bushels in Minneapolis, slightly more in Duluth because of the movement down the lakes there and the carrying of more stocks, but inconsiderable. Then I ask myself what would they be under this other circumstance, and this in effect is what you are asking.

They might be double that. These stocks are so inconsiderable, they are really much less than they should be when you figure the amount of trade that takes place in this market area. Now, you translate this into the Kansas City and the gulf area, St. Louis, the Chicago area—I guess it is too diverse a problem to come up with an exact answer. All we know is that it would be greater. The degree of increase—it would be very difficult for me to honestly say what it would be.

Senator MONDALE. I think the question as you indicated in your testimony was whether it will hurt compliance.

Mr. SEARLES. That is right.

Senator MONDALE. Although no one can be sure, the reaction I get from most experts is that depending on the percentage above the release price, it seems far less likely it would interfere with compliance on the wheat side.

Mr. SEARLES. That is right.

Senator MONDALE. Than it would on the feed grain side. Would you agree with that?

Mr. SEARLES. There is, as I pointed out in our statement here, there is a difference. There is virtually no concern in my mind on the wheat side. I wouldn't worry about compliance at all.

On corn there may be a value judgment involved in this which would dictate a different point of view. But the fellows who spend their lives in grain marketing have considered the pros and cons of that, and feel that the direct payments there are enough incentive to continue compliance and cooperation with the program.

There isn't any corn marketer who feels that he is going to sell or corn producer who feels he is going to sell his whole crop right at the top of the market.

As we said eariler they are too sophisticated today. They read the Wall Street Journal. They know what is going on. In other words, they are not going to say the Government's resale price is so much this year and last year it was lower, "therefore, I am going to sell all my corn at the top of the market."

We must credit the average farmer with a lot more knowledge than that. His average income, though, would be improved by this, and we don't think that it would hurt his cooperation with the program. But I know many people who feel that an increase, say, to 110 percent for corn would be on the safe side, and the 120 is certainly safe for wheat. There could be a difference, and we recognize this.

The CHAIRMAN. Thank you very much, Mr. Searles.

Mr. SEARLES. Yes, sir; thank you.

The CHAIRMAN. Mr. Scheiter, I wish to state for the purpose of the witnesses present that we will recess until 2 o'clock after we get through with the present witness.

You may proceed, sir.

(Additional statement on CCC resale price filed for the record is as follows:)

STATEMENT OF ROBERT C. LIEBENOW, PRESIDENT, BOARD OF TRADE OF THE CITY OF CHICAGO

My name is Robert C. Liebenow, president of the Board of Trade of the city of Chicago. In this testimony I am representing not only the Chicago Board of Trade, but the Kansas City Board of Trade, the president of which is Keith Hursley.

Our first objective in making this presentation is to publicly congratulate President Johnson on his February 4, 1965, forward-looking farm policy statement with respect to the vital force of the free market. This message reflects his sincere concern for rural people, and his great recognition of the basic facts underlying our agricultural economy.

There are some fundamental concepts contained in the message which every American should understand and endorse. For example, the President stated: "The bounty of the earth is the foundation of our economy.

"The farm people of this Nation have made, and are continuing to make, a lasting contribution to our national prosperity. As a matter of simple justice they should share equitably in this prosperity. They deserve a place of dignity and opportunity."

The facilities of our commodity exchanges are dedicated to minimizing the cost of marketing and maximizing the returns to producers. Commodity markets serve the public and the farmer well.

In this historic message the President sets forth his objectives as follows:

1. An abundance of food and fiber at reasonable and stable prices for the people of the United States.
2. Effective use of our agricultural resources to promote the interests of the United States and world peace through trade and aid.
3. A workable balance between supply and demand at lower costs to the Government.
4. Opportunity for the efficient family farmer to earn parity of income from farming operations.
5. Parity of opportunity for all rural people, including new opportunity for small farmers.

As the President points out, "Our farm programs must always be adapted to the requirements of the future. Today they should be focused more precisely on the opportunity for parity of income for America's family farmers and lower Government costs."

However, there must not be overlooked one fundamental fact which the President recognized if we are to attain the goal of parity of income—the vital force of the free market. For he declared as follows:

"Our objectives must be for the farmer to get improved income out of the marketplace, with less cost to the Government.

"To do this, I am asking the Secretary of Agriculture to so utilize the Commodity Credit Corporation as to make the free-market system work more effectively for the farmer. We must encourage the private segment of our economy to carry its own inventories, bought from farmers, rather than depending on the Government as a source of supply. We must urge the private sector to perform as many services as possible now performed by Government agencies."

Fundamentally this was not a new thought of President Johnson. For in December of 1963, in a public letter to the president of the American Farm Bureau Federation, he asked, "How can we use the pricing mechanism of the free market with more vitality than presently? In this endeavor, how can we better coordinate the role of Government with the area of the private sector, including farmers' own institutions in the marketing of farm products? In this endeavor, how can our efficiency in producing and marketing be reflected in fair and open competition in the world markets?"

In making a public statement regarding his request of the Secretary of Agriculture, there is a definite expression of a wish by the President that there be a changed course in CCC sales policy. Unless the present sales policy is changed, we cannot achieve the objective of parity of income for efficient family farmers. The only way we can attain this goal, in addition to the proposed programs, is by farmers getting a greater share out of the free market. This cannot be achieved if the current minimum sales formulas for wheat and feed grains are continued in new legislation.

There is a more compelling reason for having a higher resale price for feed grains. This relates to the effect of feed grain prices on livestock production and prices. Cheap feed means cheap livestock. Livestock and livestock products provide about 55 percent of the cash receipts on a national basis. In the Midwest, it runs from two-thirds to three-fourths. With the loan rate in 1965 for corn at \$1.05 per bushel, compared to \$1.10 in 1964, a higher resale is needed even for stable prices. Actually, a 115 percent of loan minimum resale is the level needed to prevent the stimulus for expanded livestock production and our goal of parity of income.

Heavy feed grain sales in recent years have stimulated livestock production with unfavorable prices to livestock producers. In assessing the costs of programs. We must not overlook the several hundred million dollars' worth of beef and other livestock products purchased by USDA. In addition, farm income was reduced by the unfavorable cattle and hog prices.

The Secretary of Agriculture has stated in testimony on April 6 before the House Committee on Agriculture that he has been using the sales of CCC-owned stocks to stabilize prices in order to get participation with the "voluntary" program.

In the case of feed grains, the Secretary has admitted that during the last 4 marketing years he will have sold some 2.2 billion bushels of corn. Many persons believe that these have had a depressing effect on livestock prices. In any case, the January 1, 1965, inventory value of all livestock (including poultry) dropped by some \$2.8 billion below the inventory value on January 1, 1963, with practically no change in numbers.

In the case of corn, since January 1, 1965, CCC has been selling at a rate seven times that of a year earlier. There seems little question that with the reduced level of sales, corn farmers, many of whom suffered reduced yields from bad weather in 1964, would be receiving higher prices and income.

The 1964 corn crop was about 385 million bushels below indicated requirements for domestic consumption and exports. The Secretary in his testimony to the House of Representatives on April 6 admitted that CCC expected to take over about 50 million bushels from the 1964 crop, in spite of this large 1964 corn crop shortfall.

The committee should also note that in his April 6 testimony in the House of Representatives, the Secretary made the following statement:

"This year sales are expected to be in the range of 300-350 million bushels, and acquisitions will be around 50 million bushels. Commodity Credit Corporation acquisitions of corn will, in fact, amount to only 2 percent of the crop this year."

However, as of June 4, CCC sales and disposition had already exceeded 356 million bushels, with approximately 4 months of additional time to make sales

during this marketing year. It is extremely difficult for commodity markets to adjust to supply-demand situations which involve sales made in excess of commitment by the Secretary of Agriculture only 2 months earlier.

The tremendous sales by the Commodity Credit Corporation contradict the congressional policy outlined in section 407 of the Agricultural Act of 1949. The following sentence for this section indicates the policy which the Congress desired:

“In determining sales policies for basic agricultural commodities or storable nonbasic commodities, the Corporation should give consideration to the establishing of such policies with respect to prices, terms, and conditions as it determines will not discourage or deter manufacturers, processors, and dealers from acquiring and carrying normal inventories of the commodity of the current crop.”

Heavy CCC sales keep the price structure so close to the loan that the current crop is forced into the loan with subsequent acquisition by CCC. It acquires much more gain than if the prices were permitted to move to higher levels. It costs CCC at least 10 cents per bushel in handling and transportation in this process of acquisition, storage, and later sale. The farmer, the taxpayer, and the administration lose.

Examine the following table:

Corn

	1960	1961	1962	1963
Loan rate.....	\$1.06	\$1.20	\$1.20	\$1.07
Price actually received by farmers in the market.....	\$1.00	\$1.00	\$1.06	\$1.09
Deliveries to CCC, million bushels.....	480	637	480	15
Government sales, million bushels.....	480	975	736	169

In 1960, 1961, and 1962, when Government sales were very high, deliveries to the Commodity Credit Corporation also were substantial, and the prices received by farmers were considerably below the loan rate. In 1963, however (in spite of our biggest crop in history), when Government sales were greatly reduced deliveries to the Commodity Credit Corporation also were greatly reduced, and prices received by farmers went above the loan rate.

The USDA claims it needs the lower resale price to force participation in the program. Let us examine the following facts:

- (1) The noncooperator is not eligible for the loan or payments. He is most likely to be forced to sell in the early part of the marketing year, November-December, when prices are seasonally lowest. The cooperator can use the loan and practice orderly marketing—a long-term objective of all farm programs. The average price received by cooperators will be higher than for noncooperators.
- (2) The cooperator is eligible for resale payments on farm-stored grain.
- (3) The cooperator gets payments whether or not he makes a crop. This is an important insurance feature.
- (4) The diverted acreage put into conserving crops is more productive the following year.
- (5) The farmers' own marketing organizations lose if the Government dominates the market system.

Now let us examine an actual case to show the fact that the theory of punitive necessity for a voluntary program is fallacious.

EXAMPLE OF RETURNS TO A CORN FARMER WITH A 100-ACRE BASE

Assumptions: (1) Normal yield for payment purposes of 63 bushels per acre; (2) actual yield per acre as shown, recognizing that diversion of less productive land would increase average yield on remaining acreage, (3) loan \$1.05 a bushel with a 20-cent per-bushel price support payment: (4) market price at \$1.05 for noncooperator, \$1.15 per bushel for cooperators; and (5) production costs of \$1.25 per acre.

Item	Non-participant	Participant who diverts—	
		20 percent of base	40 percent of base
Diversion.....acres.....	0	20	40
Harvested acres.....do.....	100	80	60
Actual yield.....bushels per acre harvested.....	68	70	71
Production.....bushels.....	6,800	5,600	4,260
Value of crop.....	\$7,140	\$6,440	\$4,899
Price support payment.....	0	1,008	756
Land diversion payment.....	0	315	1,575
Less production costs.....	2,500	2,000	1,500
Total.....	4,640	5,763	5,760
Advantage to participant.....		1,123	1,120

USDA AND WHEAT RESALE POLICY

In recent testimony before the Senate Committee on Agriculture and Forestry, Secretary Freeman indicated that the heavy sales of wheat were made during the so-called transition period between the old and the new wheat programs.

In order to fully appreciate the full implications of the Secretary's statement, we should go back to a press release issued by the USDA on April 11, 1964. The following three paragraphs are of major significance:

"Department officials said that extensive consideration has been given to the effect on both domestic processors and exporters of the initiation of a certificate program. Extensive consultations have been held with representatives of both groups, as well as producer and other trade groups, in an effort to develop plans for making a transition to such a program as equitable and smooth as possible.

"Since it has been apparent for almost a year that market prices for the 1964 wheat crop would be below 1963 crop levels whether legislation was adopted or not, and such prices have been reflected for some time in commodity market quotations for 1964 crop delivery, officials stated that most have had ample time in which to plan their inventory adjustments. Those with inventories still have more than 2½ months in which to make their inventory adjustment.

"By July 1, when processors and exporters will need to buy certificates to cover their use or sales of wheat, substantial supplies of the new crop will be available at about new price levels in many sections of the country. To supplement the flow of new crop wheat in areas where harvest is later than July 1, Commodity Credit Corporation owned wheat will be offered for sale after July 1 at approximately the price levels anticipated for the new crop, in order to enable users and exporters to continue their normal operations without interruption. Beginning July 1, the U.S. Department of Agriculture will sell CCC-owned wheat at the higher of market prices or the statutory minimum of 105 percent of 1964 crop price-support loan rates (based on a national average price of \$1.30 per bushel) plus reasonable carrying charges."

It is to be noted that the USDA stated that by July 1 substantial supplies of the new crop would be available at about new price levels in many sections of the country. This is an accurate statement because from USDA publication "Usual Planting and Harvesting Dates," Agriculture Handbook No. 283, we find the following:

Winter wheat

State	Usual harvesting dates		1964 crop (million bushels) ¹
	Begins—	Most active	
Nebraska.....	July 5	July 10 to 20.....	73.8
Kansas.....	June 15	June 20 to July 5.....	215.5
Oklahoma.....	June 1	June 10 to 20.....	96.6
Texas.....	May 25	June 2 to 25.....	61.8

¹ 1964 Annual Summary, Crop Reporting Board.

It is to be noted that by July 1, in these major Hard Red Winter States the harvest was practically over. In other words, there was sufficient Hard Winter wheat harvested in these four States to more than supply the requirements of domestic processors during the so-called transition period.

In the case of spring wheat other than Durum, the following information is taken from the same official source :

Spring wheat other than Durum

State	Usual harvesting dates		1964 crop (million bushels) ¹
	Begins—	Most active	
Minnesota.....	July 25	Aug. 6 to 18.....	18.8
North Dakota.....	do.....	Aug. 1 to 20.....	93.1
South Dakota.....	July 20	July 25 to Aug. 10.....	21.5

¹ 1964 Annual Summary, Crop Reporting Board.

It is to be noted that there was also sufficient spring wheat harvested by the 20th of August to supply all of the spring wheat crop needs during the transition period. In other words, there really was never any need to sell any Hard Red Winter wheat during the so-called transition period, and in the case of spring wheat, the so-called transition period should never have gone beyond August 20. In spite of these facts, the Secretary sold tremendous quantities of both of these types of wheat month after month after month. In fact, he did not stop selling spring wheat for unrestricted use until about the 20th of October.

Attached is a weekly list of sales for domestic consumption and export by weeks from the USDA's Grain Market News, one of the best and most current publications issued by the USDA.

Actually, it is obvious that the Secretary was attempting to hold down the price of wheat rather than to furnish wheat during the so-called transition period. In this connection, it is interesting to review the comments made in the Grain Market News week by week.

July 10, 1964: "Winter wheat prices went up 3 to 6 cents per bushel at most Midwest points in reflection of tight farm holding and reduced offerings. Domestic buyers were in the market for substantial amounts while export interest furnished good support. Harvest was mostly completed in Kansas and eastern Nebraska."

July 17, 1964: "Winter wheat dropped 1 to 3 cents with offerings ample for the current light demand. Larger than expected estimates of the 1964 crop was a factor in the weakening market. Farm selling continued relatively light but elevators took a substantial share of the available offerings. Spring wheat markets showed little change during the week with most interest in the CCC minimum statutory price."

July 31, 1964: "Spring wheat declined 4 to 7 cents per bushel as harvest expanded and receipts were more liberal. While there was some flour business, trading was slow and cautious."

August 14, 1964: "Winter wheat prices advanced 1 to 2 cents per bushel at most markets reflecting improved mill and elevator demand. Continued heavy export movement and tight farm holding added strength. Spring wheat advanced 5 to 6 cents per bushel. Trading was quite brisk and marketing was heavy as harvest reached a near peak in North Dakota."

August 21, 1964: "Winter wheat advanced 2 cents per bushel as buyers raised bids to attract supplies. Offerings continued light as far selling was extremely tight. Millers were scrambling to fill needs for immediate grind and export demand was active. Spring wheat gained 4 to 6 cents per bushel reflecting in part settlement of the strike at Duluth. Movement of wheat remained heavy but offerings were not large. Export demand, along with demand from domestic mills provided ready outlets."

August 28, 1964: "Exporters bought substantial amounts from Commodity Credit Corporation. Spring wheat gained 2 to 4 cents per bushel as exporters and millers raised prices in order to meet their commitments."

September 4, 1964: "Both export and domestic interests were active buyers, and with prices above the statutory minimum, purchases from CCC increased sharply."

September 11, 1964: "Winter wheat prices held steady during the week and continued at the statutory level. Widespread reluctance to sell by farmers and secondary holders forced buyers to scramble for supplies. Exporters were aggressive bidders despite substantial sales by CCC, and mills also were in the market for fair amounts. Spring wheat prices fluctuated within narrow limits and closed at last week's level. Demand was good for the light offerings."

September 25, 1964: "Hard winter wheat held about steady during the week with only a tinge of weakness reported. Export demand was active and mills were in the market to replace current grind. Offerings were limited as farm selling continued extremely tight. Exporters and country elevators acquired most of their needs from CCC."

October 23, 1964: "Spring wheat went up 1 cent per bushel with cash demand good but selling at a slow pace. Announcement that CCC had halted sales of spring wheat for unrestricted domestic use provided additional strength."

Between July 1, 1964, and June 11, 1965, the USDA sold 298.5 million bushels of wheat. It is to be noted that during the same period the national average price of wheat which was \$1.33 on July 15, 1964, was exactly the same price on May 15, 1965. This is directly contrary to the normal seasonal variations which occur in prices.

The following figures show the difference between the July price received by farmers and that in the following May:

Marketing year:	Cents	Marketing year—Continued	Cents
1958-----	13	1962-----	6
1959-----	13	1963-----	13
1960-----	12	1964-----	0
1961-----	25		

The plain and simple fact is that Government dumping caused a complete and unneeded change in the seasonal pattern of wheat prices. This has resulted in great losses to farmers.

The June 15, 1965, report issued by USDA showing grain price support activity reveals that through the end of May, 65 million bushels of 1964 crop wheat was delivered to CCC. In addition, there were 43 million bushels of loans still outstanding, practically all of which it is expected will be delivered to the Government.

It is to be noted that when a farmer places wheat under loan, at a warehouse, at \$1.30 per bushel, and he is forced by an unrealistic sales policy to deliver his wheat to the Government, that this cooperating farmer nets only about \$1.15 per bushel, since he must pay for the storage and the processing of the loan.

The net effect of this unrealistic sales policy has been to reduce income from wheat by 4 percent, including Government payments as compared with the 1963 crop, in spite of the fact that production was up by 13 percent.

Another result which occurred from the heavy sales of CCC wheat during the heavy harvest period was to force the price of wheat in the United States sharply below the world price level. This is the first time in history that U.S. wheat-growers received less than the world price for wheat. On July 30, 1964, the various classes of wheat sold between 15 and 21 cents below the world price level.

There is one additional factor which is of major importance. Continuing the current sales policy is directly contrary to the statement in the President's farm message, where he declared as follows:

"Our objective must be for the farmer to get improved income out of the marketplace, with less cost to the Government.

"To do this, I am asking the Secretary of Agriculture to so utilize the Commodity Credit Corporation as to make the free market system work more effectively for the farmer. We must encourage the private segment of our economy to carry its own inventories, bought from farmers, rather than depending on the Government as a source of supply. We must urge the private sector to perform as many services as possible now performed by Government agencies."

Unless the present sales policy is changed, there is no chance of achieving the objective of parity of income for efficient family farmers.

Commodity Credit Corporation sales of wheat

[In thousand bushels]

Week ending—	Domestic	Export	Week ending—	Domestic	Export
<i>1964</i>			<i>1964—Continued</i>		
July 3.....	7,363	853	Oct. 9.....	1,580	7,236
July 10.....	5,658	923	Oct. 16.....	1,204	17,064
July 17.....	2,084	2,184	Oct. 23.....	628	7,446
July 24.....	1,479	499	Oct. 30.....	303	250
July 31.....	1,608	4,938	Nov. 6.....	272	2,837
Aug. 7.....	471	3,896	Nov. 13.....	503	37
Aug. 14.....	1,672	1,596	Nov. 20.....	187	895
Aug. 21.....	1,423	14,090	Nov. 27.....	177	955
Aug. 28.....	4,466	30,497	Dec. 4.....	221	9,141
Sept. 4.....	1,762	4,082	Dec. 11.....	271	689
Sept. 11.....	2,804	1,230	Dec. 18.....	410	2,525
Sept. 18.....	5,092	4,907	Dec. 31 (2-week pe-		
Sept. 25.....	5,165	21,453	riod).....	553	2,036
Oct. 2.....	3,776	1,456			

Another reason sometimes advanced for lower resale prices involves budgetary costs—specifically for the wheat export subsidy. If we assume that the world wheat price will be below the U.S. market level, there is some validity in this point. The difference between 105 percent of loan and 115 percent of loan for 1965 will be 10 percent, or about 13 cents per bushel. However, the proponents of the lower resale level state mistakenly that the increase in budget costs will be 675 million bushels times 13 cents, or about \$88 million. Students of markets recognize that with a wheat crop of 1.3 billion bushels, equal to probable requirements, it would only be late in the marketing season, if at all, that the market price would rise to the \$1.44 level. Early in the marketing year, wheat would sell close to the \$1.25 average level, if not lower. The increased costs would be about half the \$88 million. The increased income would be almost twice the higher costs. Income tax returns would be higher—much higher.

There is a basic advantage to the cooperator for the market to be at or above the loan level. This is that most wheat that goes under loan is warehouse stored. The farmer must pay for the storage. Thus, taking the heavy pressure of Government sales off the farmer's back enables him to realize more in the market when he wants to use the market. If, on the other hand, he wants to use the loan for orderly marketing, this alternative is available to him.

It should be noted that for a cooperator who puts his wheat under warehouse loan to net \$1.25 per bushel, the market must rise to about \$1.38 per bushel. The 13 cents covers storage costs, interest, and fees. If the farmer is forced to turn the wheat over to the Government, he nets only about \$1.14 per bushel. This is just too little.

Also, the average wheat allotment for noncooperators in the wheat program is about 10 acres—for cooperators it is five or six times as much. Many persons question the wisdom of the Government's using the pressure of a \$14 billion corporation to force down the income of these small producers. It was never the intention of Congress that the Commodity Credit Corporation stocks be used to reduce farm income.

The market price for wheat has gone down every month since December 1964. It is most significant that in spite of a 13-percent increase in wheat production in 1964 over 1963, wheat farm income dropped by 4 percent. (This includes Government payments.) The major reason for this was the heavy sales at the minimum level permitted by law. With all the Government-owned wheat available at the legal minimum, there is very little reason for any private firm to own wheat. CCC is handling millions of bushels which otherwise would be carried by the trade. This is expensive to CCC in increased costs and to the farmer in reduced income.

With the present and proposed threats of heavy Government sales, the following facts bear attention:

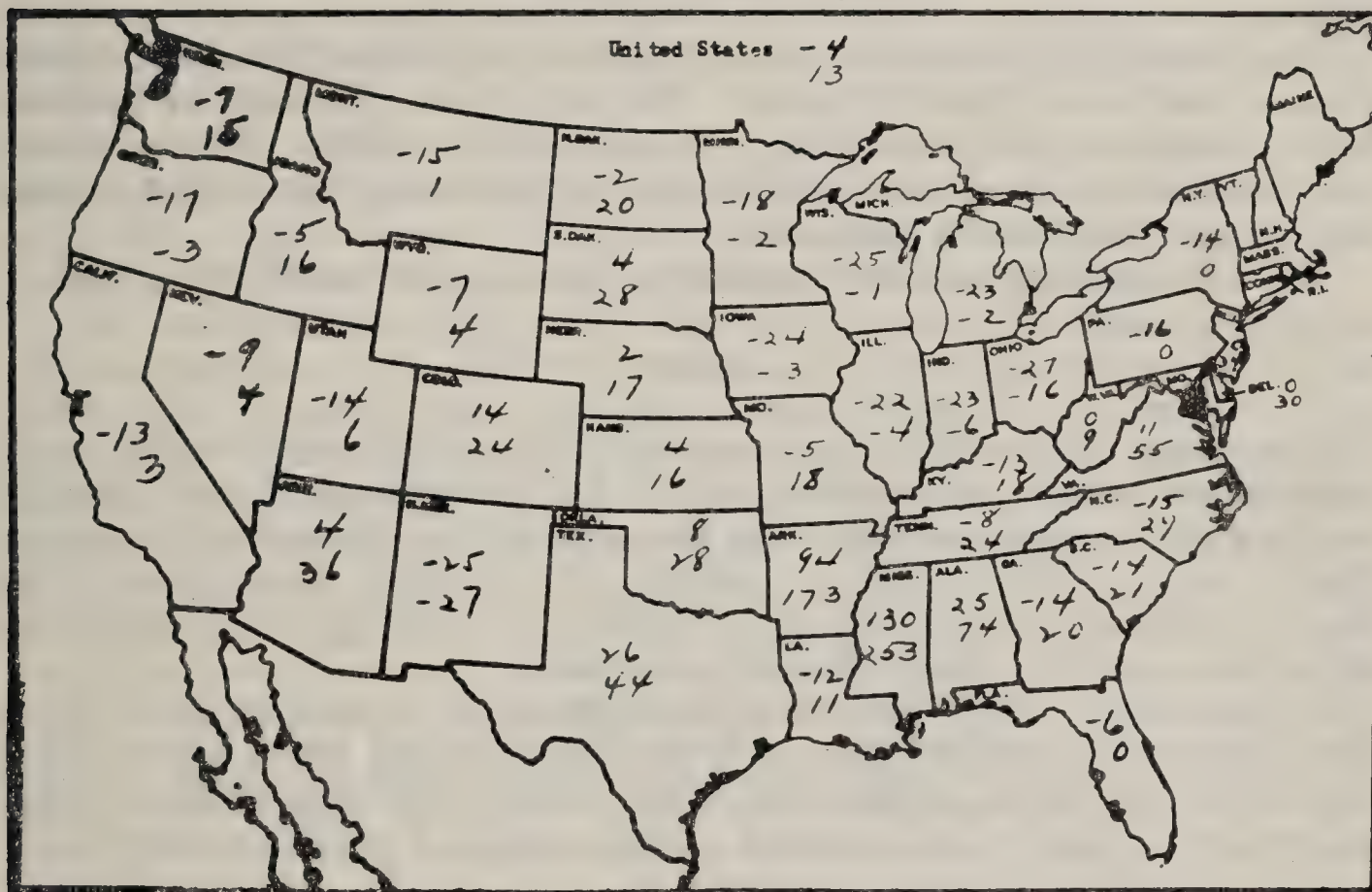
1. The President's objective of getting the private grain trade to carry its own inventories will not be achieved. There is too much fear of potential losses from heavy Government sales. Actually, industry will continue to shift the cost of carrying inventory to the Government.

2. Government controls over prices weaken the market system and can destroy it. Witness cotton.

3. Cooperators and noncooperators lose—especially in years of low yield when farmers need higher prices to make up for production losses.

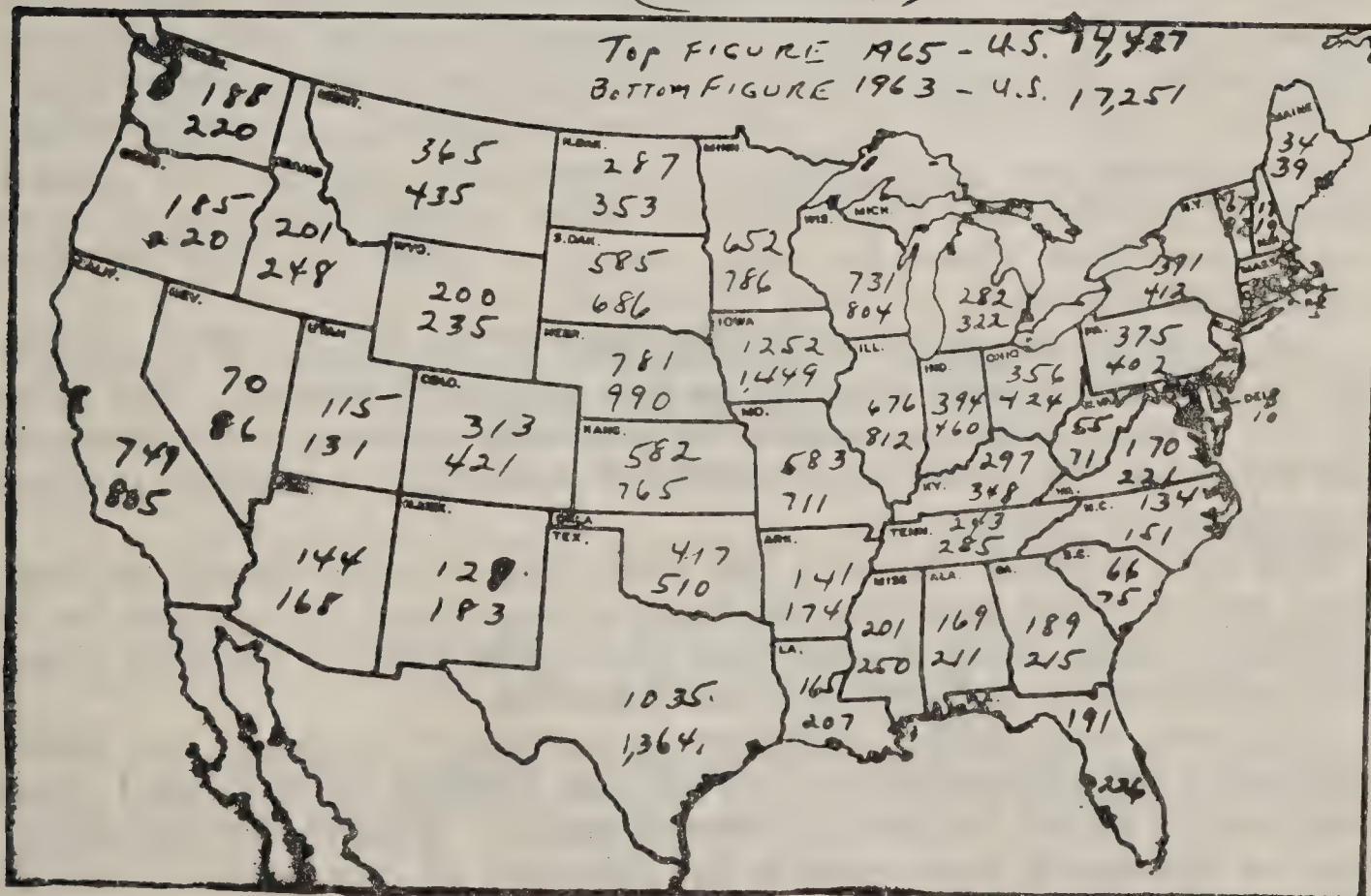
For the reasons outlined above we endorse President Johnson's objectives as outlined in his farm message, which we have quoted. We recommend therefore that the CCC release price for feed grains and wheat be at least 120 percent of the loan figure, plus reasonable carrying charges. We also recommend that the new release figure go into effect at the earliest practicable date.

WHEAT
1964 Vs. 1963
Top Figure - % Income Change
Lower Figure - % Production Change
* - Includes Government Payments



TOTAL VALUE OF LIVESTOCK + POULTRY ON FARMS
JAN. 1
(MILLION \$)

Top Figure 1965 - U.S. 14,427
Bottom Figure 1963 - U.S. 17,251



STATEMENT OF E. K. SCHEITER, CHAIRMAN, AND DR. T. A.
HIERONYMUS, CORN STARCH INDUSTRY COMMITTEE

Mr. SCHEITER. Senator Ellender and gentlemen, my name is E. K. Scheiter. I am serving as chairman of the Corn Starch Industry Committee which represents U.S. processors of corn by the wet milling process. I am president of the A. E. Staley Manufacturing Co. of Decatur, Ill., the second largest processor of corn in the United States.

The Staley Co. has made products from corn using the wet milling process for more than 50 years. We were also pioneers in the successful commercial processing of soybeans in 1921. My company has processed well over a billion bushels of these two crops during the years it has been in business.

The wet milling industry is now processing 200 million bushels of corn per year.

WHEAT

I hope my company's long record of constructive relationship with agriculture and my association with it for more than 40 years qualify me to present some reasons why the amendment proposed in section 104(b) of S. 1702 is discriminatory, unfair and inconsistent with the fundamental economics of growing, processing, and marketing wheat and corn for use in the United States.

By amending the definition of food products in section 379d(d) of the Agricultural Adjustment Act of 1938, section 104(b) of S. 1702 would permit wheat millers to obtain wheat at a noncertificate price in amounts equal to the wheat content of end products which are not to be used for human consumption.

This amendment would legislate the uneconomic substitution of wheat for corn as a raw material for nonfood industrial products. It would artificially set the price of wheat used by wheat flour millers for producing nonfood products at an arbitrary level which bears no relationship to the traditional competitive price differential between wheat and corn or to the cost of producing these two grains.

As corn wet millers, our plants are not geared to process wheat. The processes are very different. Accordingly, should this amendment be enacted and thus unfairly make wheat prices equal to or even lower than those for corn, we must suffer the loss of large volumes of business.

Let me make our position crystal clear at the outset. We are absolutely and irrevocably opposed to this proposed change. The effect of this proposed change would be to create a strong inducement to the diversion of wheat at an artificial price into industrial markets historically served by corn.

The corn milling industry has built its mills, developed its business, and, through research and hard work, carved out a place for its products, based upon a historical price relationship between wheat as a raw material and corn as a raw material.

The corn wet-milling industry is currently shipping the starch equivalent of approximately 56 million bushels of corn and grain sorghum to purely industrial users annually. This industrial utilization of the starch from corn is the lifeblood of our industry and an important source of cash income to the corn farmer.

We view the proposal being considered here today as an attempt by wheat millers, some adhesives manufacturers and the wheat starch-gluten industry to obtain an industrial subsidy which could drastically realine historic markets for grains in the United States, replacing millions of bushels of corn with wheat.

Starch from wheat and from corn can be used interchangeably for most, if not all, starch uses. However, it is more economical to produce starch from corn than from any other domestic source, including wheat, under normal market conditions, and, thus, corn has been developed naturally as the dominant source of starch in the United States.

As a result, the corn wet-milling industry today consumes about half of the corn produced on American farms which is not fed or exported. And I wish to stress that industrial starch is a basic product of the corn wet-milling industry, not a byproduct.

The interchangeability of wheat and corn was pointed out by the representative of the Millers National Federation when he testified before the Wheat Subcommittee of the House Committee on Agriculture on April 29, 1965, and was reiterated earlier this week by another representative of this same federation when he testified before this committee. I quote from the testimony on April 29:

Wheat starch, if freed from the burden of the certificate processing tax, could be competitive with starch from other domestic grains and imported tapioca and other starchy materials in numerous food and industrial uses and applications. Huge quantities of starchy materials, both domestic and imported, are used in the paper and plywood industries. Research findings recently announced by the U.S. Department of Agriculture indicate a large potential use for wheat in the paper industry. But research designed to increase the use of wheat is discouraging or made useless by this heavy processing tax burden imposed on wheat.

Then in a supplemental statement he said:

In this connection we are pleased to note that the Secretary has requested a redefinition of food products which will permit him to limit the application of the wheat processing tax to wheat products to be used for human consumption. This will permit a number of industrial uses of wheat, such as adhesives for plywood, pet foods, and wet end additives in the paper industry, to be exempted from tax without resorting to denaturing process subterfuges and strained interpretations.

The U.S. Department of Agriculture reported officially on November 4, 1960, as follows:

Acid modified wheat flour has proved equal in laboratory tests to commercial sizing material for imparting strength to paper.

Northern Laboratory scientists believe that if modified flours are introduced into the papermaking industry substantial new markets for wheat could develop. Their interest in wheat flour for this purpose is based on:

(1) Availability of flour as a raw material in large quantities at relatively low costs; and

(2) Broad industrial potential of a material that combines starch and gluten both valuable for adhesive qualities.

In Australia almost all of the industries using starch either use wheat starch resulting from gluten production or use treated wheat flour.

In England a new steam treatment of wheat produces a new type of flour suitable for industrial use. The technical literature is full of similar work.

The evidence is complete that wheat starch and processed wheat flour can replace the major part of the existing industrial cornstarch business.

This replacement, technically possible, as I have just described, should, however, occur only if it is economically sound. Therefore let us now look at the economics of wheat versus corn to determine why the industrial starch industry has always looked to corn as its raw material.

It has always cost more on the average in the United States to produce a bushel of wheat than a bushel of corn and it always will.

The corn milling industry was founded on that economic reality, and the domestic wheat industry was also founded on that economic reality. Each industry invented, developed and has sold its separate products on that basic fact. This difference in cost of production is reflected and has always been reflected in the price of wheat and of corn, and the products made from them.

Yields per acre of corn are much higher than wheat. Therefore, the cost of production is lower. The parity prices of wheat and corn reflect this difference in cost of production. In the period 1910 to 1914, which has been used as the base period for most of our grain support programs, the parity price of wheat was computed to be 63 percent greater than the parity price of corn. Similarly, in April and May of this year, the parity price of wheat was 1.6 times that of corn.

A period of free corn and wheat markets may serve as a basis for determining what relationship should exist between the prices of these grains.

In the period 1922 to 1928, there were no Government support programs. That period also was relatively free of other influences that would greatly affect cost of production or free market prices.

Data pertaining to the cost of producing wheat and corn in Illinois indicate that it cost approximately 80 percent more per bushel to produce wheat than corn. In the same period, prices received by farmers for wheat were 80 percent greater than those received for corn. Thus, in this period of free markets, the cost of production determined the relative price received by farmers.

The CHAIRMAN. How much have you been paying for corn here recently?

Mr. SCHEITER. Dr. Hieronymus has the figures, the current price.

Dr. HIERONYMUS. \$1.31 and then they have a little inbound freight on top of that, Mr. Chairman, per bushel.

The CHAIRMAN. What you are complaining about is to let wheat be sold on a comparative basis?

Mr. SCHEITER. It is a few cents difference now without the certificate involved.

The CHAIRMAN. I understand.

How much more starch can be obtained from a bushel of corn than wheat or vice versa?

Mr. SCHEITER. About the same.

The CHAIRMAN. About the same?

Mr. SCHEITER. Yes.

The CHAIRMAN. What are the competitive advantage of wheat over corn for the production of starch, or vice versa?

Mr. SCHEITER. I do not get the question.

The CHAIRMAN. You are complaining now that if wheat is sold at the regular price, which would be say \$1.82 or \$1.83, that you would not complain, but you do not want wheat selling for \$1.30 or \$1.31 for a starch production in competition with corn.

Mr. SCHEITER. The economics of the wheat flour business and the wheat starch business has been largely based on wheat gluten, vital gluten, which is a very high priced byproduct which is derived from it, and most of the starch which has in the past been used to compete with cornstarch results from that particular process, and this is where the original question arose about the problem of the vital wheat gluten people who are having difficulty with some imports.

The CHAIRMAN. So that you would be put at a disadvantage with corn at \$1.31 and wheat at——

Mr. SCHEITER. There is no question about it, and this has always been true.

The CHAIRMAN. Yes; I understand.

Mr. SCHEITER. We have a 50-year history. Why has wheat starch in all this time on this normal basis not? Because it is an uneconomic thing. This now transfers, disregards all growing costs and relationships that have existed upon which these businesses have been built, to go over and switch this starch. Now this is not a question of increasing the consumption of starch. No one has made a claim that by this method or using starch or noncertificating wheat for industrial purposes would increase the consumption of industrial starch one single pound. This has never been involved. It is a question of the transfer, this transfer by government edict or by changing these relationships. Is that a fair and proper thing? This is the question.

The CHAIRMAN. Suppose you were able to convert without any cost and purchase wheat at the same price you purchase corn. Would you still be at the disadvantage to which you now refer?

Mr. SCHEITER. Yes. You see, the point is the byproduct balance. It is a question from corn we get starch and our byproducts. From wheat in the wheat gluten business you have wheat and very high byproduct prices, you see, so that there is a partial offset between the higher price of the raw material and the greater value of the byproducts in the wheat, from the wheat gluten industry.

Senator BOGGS. Mr. Chairman, while you are on that point, might I ask a question?

The CHAIRMAN. Surely.

Senator BOGGS. I was wondering, how much of the cereal starch market do the producers of cornstarch and cornstarch derivatives have?

Mr. SCHEITER. I would say it is probably 95 percent. I am talking now of domestic cereal. We have another problem which is the enormous importation of tapioca which has already cut in, but when you come down to the question of domestically produced starch, the cornstarch industry is about 90 percent let us say.

Senator BOGGS. If you follow through on your suggestion, then the cornstarches would have a total monopoly in the starch derivatives in this country for domestic uses.

Mr. SCHEITER. They are now doing 90 to 95 percent. It is a question of which, if left to free markets and to the traditional relationship

of these things, which earns its place in the marketplace on the basis of merit and basic costs.

Senator BOGGS. But you would be driving the wheat out of the market, would you not, if we follow your suggestion?

Mr. SCHEITER. As they point out, they have perhaps 3 to 5 percent of the market, which is the result of a byproduct of making vital gluten, and that particular phase of their business was and is threatened because of the imports. This was a question that has been discussed, that that particular problem, which was the vital wheat gluten business, should be solved, and there was every effort, and we are willing to discuss this particular thing, but to solve this wheat gluten thing, which is a problem which we recommend, to open the Pandoras box and switch the whole thing over, is not reasonable and is not proper.

We do not want their business, and the business that they have had as a result of the gluten business is not something that we aspire to. We just say as that business is protected against imports, that you do not open the thing and switch the whole thing around.

Senator MILLER. Mr. Chairman, could I ask a question at that point?

The CHAIRMAN. All right, you may proceed, Senator Miller.

Senator MILLER. On page 5 of your testimony you quoted testimony from the USDA relating to the use of wheat flour in papermaking.

Mr. SCHEITER. Yes.

Senator MILLER. Is corn used in this?

Mr. SCHEITER. Yes. The largest single industrial use of industrial cornstarch is the paper industry, the paper industry with its fantastic development in this country and the problems on pulp, and so on. This has been a very interesting research development of taking various types of cornstarches and helping this industrial expansion in the paper industry.

Senator MILLER. Is there any area where wheat starch can be used or is being used where cornstarch is not properly available?

Mr. SCHEITER. No, sir.

Senator MILLER. So there would be no way of modifying this section of the bill to which you are objecting to limit the wheat starch to certain uses without jeopardizing the cornstarch industry?

Mr. SCHEITER. There has been a discussion, and again I refer to this wheat gluten business, which is an existing business and which as a byproduct has had certain wheat which has gone into the industrial business. They at one time proposed, and we said we would not object to a provision whereby the starch resulting from the manufacture of wheat gluten—and thus avoid the imports—should be exempt from this particular certificate plan to that extent.

Senator MILLER. Then this section of the bill could be limited to that particular item to protect this area of the industry from the import problem.

Mr. SCHEITER. That is right.

Senator MILLER. And you would have no objection.

Mr. SCHEITER. That is right. This has been written and has been prepared, but when discussed, as we understand it, the flour millers, not the wheat gluten people, felt that they wanted the broader exemption.

Senator MILLER. I understand. Do you have a copy of the draft of that proposed limited section? If you do, I wonder if we might have that placed in the record.

The CHAIRMAN. What I would suggest is that you give the suggestion to us later, if you are not ready.

Mr. SCHEITER. This has been prepared.

The CHAIRMAN. All right.

Mr. SCHEITER. In other words, when it was previously discussed.

The CHAIRMAN. We will put it in the record at this point.

(The information referred to follows:)

H.R. 7097

Section 104

Page 12: Delete lines 6 through 9 and insert in lieu thereof the following:

“(d) As used in this subtitle, the term ‘food products’ means flour (except an amount of second clear flour having an ash content of 1 per centum or more, processed by a single process into both wheat gluten and wheat starch, equal to the quantity of wheat starch not used for human consumption which is produced by such process but not in excess of a total of 80 million pounds in any calendar year), semolina, farina, bulgur, beverage, and any other product composed wholly or partly of wheat which the Secretary may determine to be a food product.”

Page 12, line 10: Delete the word “food.”

Page 12, line 14: Substitute a comma for the period at the end of line 14 and insert the following: “and, for the remainder of calendar year 1965, the maximum total amount of second clear flour excepted hereunder shall be reduced and prorated as determined by the Secretary.”

Senator COOPER. May I ask a question, Mr. Chairman?

The CHAIRMAN. Go ahead, Senator Cooper.

Senator COOPER. Are different processes required in using corn and in using wheat?

Mr. SCHEITER. Entirely different.

Senator COOPER. Then what you are saying is that if this section stays in the bill, the Government in a way would decide who is going to make these products.

Mr. SCHEITER. Exactly. That is exactly the point. Not only is the Government making that decision, but they are making it on the basis of destroying the relationship of the cost from all time, the difference between the cost of producing a bushel of corn and a bushel of wheat.

Senator COOPER. In other words, there has been a historic price relationship which has caused this industry to be built up using corn, and to change that relationship by exempting industrial wheat from certificates will mean that different processes, different machinery, different plants and everything——

Mr. SCHEITER. Completely different.

Senator COOPER. By making that decision the Government would knock the pins out from the whole industry.

Mr. SCHEITER. If it was simply changing over in the same factory with a different raw material, this is not it.

The CHAIRMAN. That is what I was suggesting a while ago. You cannot do that.

Mr. SCHEITER. One is a wet milling, and one is a dry separation.

Senator BOGGS. I would think it would work just the opposite. I would think by leaving the provision in the bill, you are leaving it to the natural circumstances.

Mr. SCHEITER. It is not a natural circumstance to have wheat at the same price of corn.

Senator BOGGS. No, but I mean it would reach its own price.

The CHAIRMAN. But you would have to obtain a certificate before they could use it, you see, to make starch.

Senator BOGGS. But for nonfood purposes you would not have to obtain a certificate.

Mr. SCHEITER. That is the point.

The CHAIRMAN. That is what he is complaining about.

Mr. SCHEITER. It is a two-price system. Some users for domestic consumption in the United States can buy wheat at \$1.25. Somebody else has to pay \$2.

The CHAIRMAN. All right, Senator McGovern.

Senator MCGOVERN. Mr. Scheiter, are you being hurt by the wheat program that is now in operation?

Mr. SCHEITER. No.

Senator MCGOVERN. There is wheat available under the existing program for industrial uses without paying the certificate.

Mr. SCHEITER. Not in the wheat milling industry where it is made into food. Wherever starch results as a result of producing flour in the wheat milling industry the present law requires the certificate.

Senator MCGOVERN. Would that apply, for example, to paper and things like that? Under the existing program can industry not get enough wheat without paying a certificate so that you have already got an exemption in effect?

Mr. SCHEITER. Not and process it for industrial use. Only as the result of processing it through a wheat flour milling industry and getting the high-priced byproducts.

Senator MCGOVERN. They can do it, as I understand it, if they use it for nonhuman food purposes; that is if they can grind the wheat directly into industrial uses, they can do that, or there is another exemption, as I understand it, under which they could purchase non-certificate wheat and it for industrial purposes.

Mr. SCHEITER. But the point is that it is entirely a matter of product mix, and no one has done it at any given time. The only way that starch for industrial use can be developed economically is through it being a byproduct of the standard flour milling industry and thus getting the higher priced product.

Senator MCGOVERN. How does the new law change the language that we now have in the existing program as far as your operation is concerned?

Mr. SCHEITER. The new law this past year——

Senator MCGOVERN. Not the law but the proposal.

Mr. SCHEITER. The flour miller would buy corn in the country let us say at \$1.25, and then pay the certificate for 75 cents, so the raw material cost is \$2 for whatever purpose he wanted to use it.

Senator MILLER. You mean the wheat.

Mr. SCHEITER. The wheat miller, I am sorry. His cost is \$2 for whatever purpose he used it for, whether he made food or whether he did not. The new procedure suggested is that he buy the wheat for \$1.25 and be relieved from paying the 75 cents, and next year the \$1.25, if that is it, on that portion that goes into the industrial things, so that it just completely changes the relationships which have existed all this time.

Senator BOGGS. But on that point, Mr. Chairman, by going back to your proposition, you are keeping the Government in the certificate business for the nonfood use of wheat. Would it not be better on nonfood uses to go back to the point where certificates were not required, back to what you might say were normal circumstances before the Government got into the business?

Mr. SCHEITER. This certificate business is none of our affair. I mean all we are saying, that some way, somehow, that Congress and the Department of Agriculture decide what is best for the overall agriculture, that they do not destroy basic relationships, the difference between two raw materials.

Senator McGOVERN. It would seem to me you would be getting back to the basic relationships. That is the point I cannot see.

Senator MILLER. May I perhaps at that point ask a question which might bring this out? From the standpoint of economics, if we did away with all certificates, the market price for wheat, both for industrial uses and for human consumption, would be considerably over what it would be without the certificates.

Mr. SCHEITER. Oh, certainly; it always has been.

Senator MILLER. So even then if it just sought its own level in the marketplace without any certificate program, it would be prohibitive for use for starch purposes.

Mr. SCHEITER. Absolutely.

Senator MILLER. So you see you want to follow the law of economics and say, "OK, we are not going to have any certificate at all," you are not going to have any wheat starch competition.

Mr. SCHEITER. For industrial.

Senator MILLER. But if you are going to follow a two-price system and have a certificate on it for the food side and no certificate for the other side, then the wheat farmer can hedge against his lower price for the industrial side by his high price for his food side, and then you are not in an economic position.

The CHAIRMAN. Proceed, sir.

Mr. SCHEITER. In the more recent period 1959-60, the cost of producing wheat in central Illinois was approximately 78 percent greater than the cost of producing corn, and the prices received by farmers for wheat were 71 percent higher than for corn. While the prices received by farmers in this period did not precisely reflect relative production costs, due to the effects of Government support programs, it will be seen that the cost-price relationship of corn and wheat was roughly the same in the period 1959-60 as in the period 1922-28.

For the past 30 years or so, the Government support programs have been drawn so as to set the support rates of corn and wheat to reflect their historical free-market cost-price relationship so as to assure orderly marketing of each product. Corn and wheat processors have paid prices reflecting this relationship.

Following my testimony, Dr. T. A. Hieronymus, professor of agricultural economics at the University of Illinois, will discuss this subject at greater length. Suffice it to say at this point that it is now proposed through this legislation to reduce the price of wheat for industrial processing to an artificial level not reflecting wheat's relative values as compared with corn. This is not real competition. This becomes discriminatory or class legislation. This becomes legislation that will do irreparable damage to the cornstarch industry, which built

the industrial starch business in the first place on the sound economic premise that it costs somewhat more to produce a bushel of wheat than a bushel of corn in the United States.

May I remind you again that this amendment to which we strenuously object is sought by those who would defy economics and set wheat farmers against corn farmers to the detriment of the national agricultural economy. May I also state that this legislation which would favor the industrial utilization of wheat over corn is unjust to those who have built a sound business on the industrial processing of corn and is illogical in that it favors substitution of the less economic for the more economic grain in serving markets developed through utilization research.

In conclusion, I plead once more and most earnestly in the interest of sound agricultural economics and fair play that you do not permit adoption of an amendment, either in S. 1702 or in any other wheat bill, which will legislate arbitrary prices of wheat and corn for industrial use in the United States which are not related to the difference in the costs of production of the two grains.

The CHAIRMAN. Doctor, how long would you require?

Dr. HIERONYMUS. I should gage 20 minutes.

The CHAIRMAN. We will have to recess because I thought we would get through in 30 minutes with both of you. We will have to recess until 2 o'clock, and you can then proceed.

(Whereupon, at 12:45 p.m., the committee recessed, to reconvene at 2:15 p.m. the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Will you resume your seats?

Senator MILLER. Mr. Chairman, I have an amendment that is pending right now and I had planned to ask some questions of the witnesses and I wondered if I could ask the Chair's permission to submit these six questions to the two witnesses and let them provide the answers for the record.

The CHAIRMAN. Yes, all right.

Just submit it to them now.

Senator MILLER. I will submit it to them now and they could provide for the record and have the questions and answers appear following this testimony.

The CHAIRMAN. All right, that will be permissible.

Senator MILLER. Thank you.

(The questions and answers are as follows:)

Senator MILLER. The amendment contemplated in section 104(b) of S. 1702 would exempt processors of wheat for industrial purposes from purchasing wheat marketing certificates. If this amendment is enacted, wouldn't the price received by farmers for wheat for industrial processing frequently be likely to be less than the farmers' cost of production?

Mr. SCHEITER. Yes. The national average cost for farm production of wheat is \$1.55 per bushel.¹ The cost of producing wheat in central Illinois in 1959 to 1960 was \$1.55 per bushel.² The cost of producing wheat in Kansas in 1963 was \$1.37 per bushel.³

¹ Source: USDA Crop Reporting Board.

² Source: "Detail Cost Report for Central Illinois, 1959 and 1960," University of Illinois, Department of Agricultural Economics, AERR-48, December 1961.

³ Source: Association Farm & Kansas Statistics, Department of Agricultural Economics, Kansas State University.

The nationwide average prices received by farmers for open market sales, excluding the value of certificate and payments in kind on March 15 were \$1.36, on April 15 were \$1.34, and on May 15 were \$1.33.¹

Senator MILLER. Should not the price relationship of corn and wheat for domestic industrial processing bear some reasonable relationship to the relative costs of producing the two grains, to the relative parity prices of the two grains (which, I understand, is largely based on production cost)?

Mr. SCHEITER. Yes. The price differentials between corn and wheat have always been closely related to cost of production and parity. In the interest of orderly marketing and preservation of economic interests built upon these differentials, as well as assuring the farmer an income commensurate with his outlay, this relationship should not be altered.

Alteration of this relationship as is proposed in section 104(b) of S. 1702 would result in the uneconomic reallocation of productive resources. The existing competitive positions of corn and wheat for industrial processing are based upon a long history of wheat and corn being priced on the basis of their relative costs of production. To suddenly alter these competitive positions by distorting the historical price relationship of corn and wheat would be unjust to corn farmers and to corn processors who have built their businesses on the long-standing and natural production-cost differential between the two grains.

Senator MILLER. Assuming that the price of wheat for industrial processing which would result from enactment of this amendment would roughly approximate the world price of wheat, would this create a natural and equitable relationship between corn and wheat for industrial processing in the United States?

Mr. SCHEITER. No. World prices of wheat are rigged prices. They are not established in the marketplace and do not reflect the interaction of free supply and demand nor the cost of producing wheat. They are determined almost entirely by negotiated sales between various governments of the world. In an economic sense there is not a world wheat price.

In the United States, it costs from 60 to 80 percent more to produce a bushel of wheat than it costs to produce a bushel of corn. The prices of corn and wheat for industrial processing, as well as for all other uses, have always reflected this production cost disparity, both under Government programs and in times of free market conditions.

This proposal to reduce the cost of wheat for industrial processing to the "world price" would upset this historical balance based on production cost and would, thus, disrupt the orderly marketing of the two grains and wipe out many decades of industrial investment based upon this production-cost differential.

The result would be highly inequitable.

Senator MILLER. It is argued that industrial wheat processors should be permitted to purchase their raw material at world prices since corn processors purchase corn at world prices. Would enactment of this regulation enable wheat processors to purchase wheat at the world price?

Mr. SCHEITER. No. There is a rigid quota on imports of wheat into the United States which insulates the U.S. wheat market from the effects of world prices. World prices for wheat do not and cannot exist in the United States. The price of wheat for industrial use which would result from enactment of this legislation would be the artificial, rolled-back domestic price which results from the wheat certificate purchase requirements of the law.

Corn farmers buy corn at world prices because the United States is the world's largest and most efficient producer of corn. The U.S. price of corn sets the world price.

Senator MILLER. Wouldn't this amendment create an uneconomic distortion in the use of corn and wheat for industrial purposes, with no actual national or agricultural gain?

Mr. SCHEITER. Yes. It would artificially narrow the longstanding price differential between wheat and corn for industrial nonfood uses, which is soundly based on the disparate costs to farmers of producing the two grains. By avoiding the wheat certificate value, wheat millers would be able to buy wheat below the farmers' growing costs. Such Government-subsidized wheat purchases would reduce the market for industrial products made from corn which corn wet millers buy at prices well above the farmers' production costs.

Such subsidized wheat products can only replace corn products in markets already served by corn since the industrial usage of both grains is based upon their starch content. Wheat starch is interchangeable with cornstarch in most

¹ Source: USDA Crop Reporting Board.

industrial uses for starch. Thus, enactment of this amendment would merely shift production from the economic use of corn to the uneconomic use of wheat without increasing total industrial utilization of grain.

Senator MILLER. If this legislation were enacted and resulted in increased utilization of wheat for industrial purposes, wouldn't this come at the expense of corn?

Mr. SCHEITER. Yes. The industrial nonfood utilization of corn and wheat is based upon the starch which can be derived from the two grains. Corn has been supplying our country's major starch markets for many years, and corn processors are not producing at capacity. The only result which can flow from a reduction of the price of industrial-use wheat, will be increased production of subsidized wheat starch or modified wheat flour to replace cornstarch in established cornstarch markets. There will be a substitution of wheat for corn as the raw material for industrial carbohydrates. No new or additional utilization of agricultural commodities will result.

The CHAIRMAN. At this point I ask permission to place in the record a letter addressed to me from Philip A. Hart, Senator from Michigan, dated June 25, 1965.

(The letter referred to follows:)

U.S. SENATE,
Washington, D.C., June 25, 1965.

HON. ALLEN J. ELLENDER,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In the committee's considerations of S. 1702 I would appreciate it if you would put in the record an expression of my interest of several years in the provisions covered by section 104(b) which would amend section 379d(d).

A significant industry in Harbor Beach, Mich., relies heavily on wheat starch and wheat gluten for its main products. As testimony already available to your committee indicates, the wheat starch-gluten industry has a very good case to make as to why this provision is important in any wheat-marketing-certificate program.

Again, Mr. Chairman, I appreciate the committee's attention to this important aspect of the pending wheat legislation and want to assure you that as a result of a number of years acquaintance with this plant, the inclusion of this provision would mean a great deal in continued employment as well as the economic well-being of the entire area.

With every best wish,

Sincerely,

PHILIP HART.

The CHAIRMAN. You may proceed, Doctor.

Mr. SCHEITER. I think I should report now that it is our understanding that the House Agriculture Committee on Friday last approved an amendment exempting certain wheat flour products from certificates; further I understand that that committee will file a report which will state that it recognizes that the corn starch and wheat starch industries have developed over a period of many years on the basis of the relevant prices of corn and wheat and that it is the intention of the committee that, insofar as these industries are concerned, this legislation should not be the cause of any shift from one commodity to another; further, that if such shifts should occur it is the intention of the committee to have a study made to reestablish the traditional balance between the use of the two commodities for nonfood purposes.

In my opinion, this solution will not work. Under the House proposal there would be materially increased use of wheat for industrial starch, and the historic balance would not be maintained. I submit that once the injury occurs the damage has been done. This would be like closing the barn door after the horse is stolen. If Congress does not wish to bring about such a drastic realignment of one agricultural

commodity at the expense of another, and to unfairly injure an industry, the remedy is simple: don't make any amendment to the present definition of food products.

The CHAIRMAN. Proceed.

Dr. HIERONYMUS. My name is T. A. Hieronymus. I am a professor of agricultural economics of the University of Illinois. I have been employed there since 1949. My principal area of concentration over the years has been in grain and soybean marketing, pricing, and use.

As I understand it, the proposed amendment to section 379d(d) of the wheat bill would exempt firms using wheat for industrial nonfood products from purchase of wheat certificates. Thus, wheat used in the production of industrial starch would be available at domestic non-certificated market prices. I think that this is an undesirable amendment on two counts:

(1) It would cause havoc in the use, pricing, and marketing of corn. This is particularly important in Illinois because it is the leading commercial corn-producing State, and

(2) it would cause an economic disequilibrium in the industrial starch industries.

At the present time the prices of wheat and corn are at very nearly the same price—on June 7, 1965, corn, track Illinois points, was \$1.31, and wheat was \$1.39 which, pound for pound, is almost precisely equal.

If I name the price of corn up to wheat it is \$1.40 or higher.

This a long-run disequilibrium, out of line with relative costs of production and historical relationships. It is a relationship that we should not expect to persist for very long.

In the long run, prices must reflect relative costs. In Illinois the cost of producing a bushel of wheat is approximately twice that of corn.¹

In southwestern Nebraska the price of wheat must be approximately 1.5 times that of grain sorghums to compete for resources.²

In April 1965 the parity price of wheat was 1.6 times that of corn (\$2.55 versus \$1.56). For the period 1959–63 the average loan rate for wheat was 1.6 times that of corn. For the same period the market price of wheat averaged 1.7 times the market price of corn. Our detailed costs studies at the University of Illinois indicated the cost ratio in the 1920's was about 1.8. At that time of very limited farm programs the market price ratio was also 1.8.

The cost advantage of corn is increasing because the technology of corn production is improving more rapidly than that of wheat. We should expect this fundamental advantage of corn to continue for the foreseeable future.

In this connection I would like to quote Secretary Freeman from his statement to the Senate Agriculture Committee on June 16:

Perhaps in no other area of agriculture is the technological revolution so much in evidence as it is in feed grain. In 1960, corn yields averaged only 54.5 bushels per harvested acre.

By 1963, the average yield had risen to 67.6 bushels. Yields in 1964 were down due to drought, but if we have normal weather this year we may see corn yields averaging around 70 bushels—a rise of 15 bushels or more in 5 years.

¹ Hinton, R. A., and Mueller, A. G., "Detailed Cost Report for Central Illinois, 1959 and 1960," AERR-48, College of Agriculture, University of Illinois, 1961.

² Vlasin, R. D., and Epp, A. W., "Alternative Cropping Systems for Southwestern Nebraska," SB-443, Nebraska Agricultural Experiment Station, 1958.

There are compensatory payment programs for both wheat and corn. But the two are quite different, both in the amount of the crop that is affected and the size of the payment. The domestic certificate rate proposed for wheat is fully 50 percent of the domestic support rate.

In 1965 certificate values amount to 31 percent of the total wheat price. The certificate program applies to a high proportion of the total wheat production. The corn payment rate is a much smaller proportion of the total price; currently 20 cents of \$1.25 or 16 percent. It appears that the corn subsidy in 1965 will apply to only 36 percent of the corn production. Now, 16 percent of 36 percent is less than 6 percent. The certificate program is a major factor in the price of wheat while the payment program is a relatively minor factor in the price of corn.

The two programs have quite different effects on production. If the market price of wheat was \$1.25, there were no supplemental payments and the prices of other commodities remained constant the production of wheat would decline rapidly. This is true because the average cost of producing wheat is greater than \$1.25 and at such a price land would be shifted to alternative uses at both intensive and extensive margins. In the western low-moisture areas land would revert to grazing and in the eastern, good land, higher rainfall areas, land would be shifted to feed grains and soybeans. Thus, the effect of the wheat certificate program is, at current market price relationships, to subsidize production of wheat.

On the other hand, the compensatory payment on corn is a device to reduce the acreage of corn. It reduces corn production. The effect is somewhat offset by increased corn acres on nonparticipating farms and the greater use of fertilizer. The price of corn has been maintained well above the cost of production and would likely remain above cost without compensatory payments.

Given a competitive market situation corn and wheat prices would relate to each other at a difference necessary to command productive resources. A farmer allocates his resources—land, machinery, fuel, fertilizer, labor, etc.—where his returns are greatest. He can get more bushels of corn and grain sorghums per unit of input than he can wheat and soybeans. Thus, except as wheat and soybeans carry higher prices they cannot command resources.

But we do not have a competitive market situation. The price that generates more or reduces wheat production is the price at the local elevator plus the certificate value. This is the resources allocating price; this combined value is the price that confronts the farmers in making his planting decisions. The addition of the certificate value to the elevator price results in a favorable return to wheat in relation to alternative crops. If we then turn around and allow the use of wheat at prices below the farmer revenue we have subsidized the production and use of wheat. Farmers produce to a blend price. In any blend price situation the high price item carries part of the cost load for the low priced item and thus lets it sell for less than its full cost.

The price of corn is and has been at incentive levels without payments. The rate of compliance with the feed grain program is not high. Only 36 percent of corn production this year will be loan and

certificate eligible. Yet it is high enough to materially reduce corn production and increase its price. The result is higher corn prices than would exist in a competitive market. Programs have acted to increase corn prices to users.

The critical consideration in wheat versus corn prices is the ratio that equates return to producers. The studies that I have quoted indicate that unless farmers in Illinois can get twice as much for wheat as they can for corn they should grow corn. Similar alternative use studies in southwestern Nebraska where the principal competition is between wheat and grain sorghums the price of wheat must be 1.5 times that of grain sorghums to compete for land.

The price ratio of current loan rates is 1.2 to 1—on a pound for pound basis this is 1.1 to 1. I submit that at 1.1 to 1 wheat cannot command land in sufficient amounts to provide wheat for industrial use. There can be wheat available for industrial use only because farmers face a blend price rather than the \$1.25 loan price.

For nearly a century we have been able to profitably devote agricultural resources to the production of corn—in competition with other crops—for use in the manufacture of industrial starch. This has been a premium market for corn—one of its highest value uses. We have not been able to profitably devote agricultural resources to the production of wheat—in competition with other crops—for use in the manufacture of industrial starch. This is not a premium market for wheat—it is its lowest value use. The ratio of wheat to corn prices that will draw agricultural resources into wheat production will not permit the industrial use of wheat. This ratio has been established over the past 75 years by farmers in the allocation of resources, by the market in prices paid, and by the Congress in its wisdom in establishing parity prices and support rates. And I might add parenthetically, observed by agricultural economists.

This economic ratio is threatened by the amendment that would exempt wheat in industrial use from the certificate payment. Such action would result in uneconomic allocation of productive resources. Such misallocation is wasteful.

An alternative to relating corn and wheat prices in the domestic market on the basis of relative cost of production is to relate them to world prices. I do not regard this alternative favorably. Domestic production and use are directed by domestic price relationships. The prices confronting farmers influence their decisions—not the world price. The prices confronting users influence their choice of raw material—not the world price. The only way that we can get an economically rational allocation of agricultural resources is to price products into use on the basis of domestic prices.

A second reason that I do not approve of using world prices of wheat to direct domestic use is that I do not really think that there is a world wheat price. True, we can identify an exterritorial price such as f.o.b. gulf ports but this is not a price that producers get nor one that consumers pay. It is thus not an economic price that orders production and use but rather a reference price on which subsidies are paid and on which import and export levies are collected.

In 1962 (the most recent year for which I have data) the Argentinian domestic price was 27 cents under the export price, the Canadian domestic price was equal to the export price, the Australian domestic

price was 18 cents over the export price, the United States domestic price was 48 cents over the export price, the French domestic price was 98 cents over the export price. Among the developed, importing countries producer support prices in 1964 ranged from a low of \$1.88 in New Zealand to a high of \$5.10 in Finland. With the exception of Canadian producers, no one gets it and no one pays it. Thus, in an economic sense, it doesn't exist.

On May 25, Senator Young said in the Senate:

Currently the farm price equivalent to the world wheat price is about \$1.25 per bushel and this price could go even lower in future years. World prices are not established in the marketplace. They are determined almost entirely by negotiated sales between various governments of the world. They are rigged prices that have little relationship to a free market.

What are the consequences of adopting the proposed amendment? In the case of wheat the effect of the amendment would be to permit the certificate payments made on food wheat to enable below cost-of-production consumption of nonfood wheat as an industrial raw material.

On the other hand the effect of the corn payment is to limit production and raise the price of corn as an industrial raw material. This new relationship, if it is allowed to develop, and this fundamental disequilibrium, will importantly affect the industrial use of corn and wheat and the competitive position of wheat and corn in the manufacture of industrial starch. The existing competitive position has developed out of a long history of pricing wheat and corn on the basis of their relative costs of production. To alter this relationship in the manner proposed would sharply reduce the industrial use of corn and increase that of wheat. Because of the nature of the demand structure for industrial starch there would be very little, if any, effect on the total consumption of grain in industrial uses.

The economic result of such a change would be disinvestment in cornstarch facilities and investment in wheat starch facilities. The total resources, both agricultural and industrial, required to produce starch would be increased without an increase in end product value. This would not be economic progress but rather economic waste and waste is undesirable.

There are considerations of equity. The proposed amendment would result in losses to the corn milling industry. Such losses are to be expected if they result from economic forces in the market. But it hardly seems reasonable to penalize an industry by a governmental action that results in an uneconomic price relationship.

If your legislative action results in a wheat-to-corn price ratio of 1.1 to 1 you will have legislated the corn millers out of business. I do not think that this is a legitimate function of government.

The CHAIRMAN. Will you tell us what would be the impact on corn production if the amendment that you are talking about now is adopted?

Dr. HIERONYMUS. I doubt that it would affect corn production.

The CHAIRMAN. How would it affect the use of corn, put it that way?

Dr. HIERONYMUS. This continues, in the next item in the statement, Senator.

The CHAIRMAN. I am sorry, I anticipated you.

Proceed.

Dr. HIERONYMUS. The proposed amendment is of major consequence to corn producers, particularly those in the central Corn Belt States. If this amendment is passed, they will lose a major share of their market for corn.

Further, the grain marketing system will be seriously disrupted. The annual commercial movement of corn in the United States is on the general order of 1.5 billion bushels, of this nearly 200 million or 13 percent is purchased by the wet milling industry and 100 million by the dry millers. Illinois is the leading commercial corn State. About 470 million bushels (62.5 percent of the crop) was sold from farms in 1963.

The corn milling industry is important to Illinois. Just how much of the 300-million-bushel annual requirements of the millers are furnished from Illinois is not readily ascertainable but it is quite high. I am inclined to estimate the total on the general order of 200 million bushels.

The effect of the amendment would be to reduce farm income from corn. A market lost is income lost. Further, purchases by corn millers have a major effect on corn prices. Interestingly there would not be an offsetting increase in farm income from wheat. Under the proposed law, wheat income would be determined by the wheat loan rate and the value of wheat certificates neither of which is affected by the industrial use of wheat. If corn income is lost and wheat income is not gained, there must be a net loss of farm income.

Corn processors are the premium corn market. They are the price leaders. Corn producers need them.

Thank you.

The CHAIRMAN. Well, I presume then that if this amendment is not stricken or modified the Government would have just that much more corn to take in storage?

Dr. HIERONYMUS. I think so; yes, sir.

The CHAIRMAN. Would you estimate the amount for us?

Dr. HIERONYMUS. This depends on how deeply into the industrial starch market or the total starch market the substitution of wheat would go. It is my opinion or estimate that about 60 million bushels of corn per year go into the industrial starch market. This is out of the 200 million wet process.

Now, how much of this 60 million would be lost and how much would be lost out of the dry milling industry I am not really prepared to say.

The CHAIRMAN. Any further questions?

Senator COOPER. Just this question. Looking at it from the other side, would you say that the requirement to purchase certificates has acted adversely against the industry which uses wheat for starch products. Doesn't it raise their costs?

Dr. HIERONYMUS. I am not really a close student of the pricing of these byproducts. But it is my opinion they have not been affected adversely by the 70-cent certificate, and an increase of 50 cents in the—in it as proposed, would not adversely affect them. The reasoning is this: if we do increase the certificate which increases the raw material costs by 50 cents, the wheat miller has got to look around and find some place to pass some way this extra raw material cost on. He has three products in broad outlines, three products to do it to. One is flour, and the demands for flour in domestic use is highly inelastic, and anything that

has a highly inelastic demand structure will take a price increase without hurting its use.

Secondly, he has the bulk, the biggest is the mill feed, longs, shorts, and middlings. He can't tack any of this extra cost on this byproduct. I have heard no one say he can. Because it has to sell in competition with wheat feed, corn, and so forth.

The other byproduct is second clears, and second clears is a byproduct which has to be sold, and it has to sell in competition with other gluten sources, and to meet that competition he can't tack this on it.

So, I am very reluctant to suggest it but I don't—I think, as I understand it, the original people who were worried about this certificate increase were the vital gluten people, and I think they are afraid of something that would not threaten them.

I don't think it would put the price of second clears up at all to increase the certificate from 75 cents to \$1.25. But I am doing a little bit of theorizing here about primary products and byproducts but that is my opinion.

The CHAIRMAN. Any further questions?

If not, we thank you gentlemen, very much.

Don't fail to answer those questions submitted, and if you mail them to us we will put them in in connection with your testimony.

(Additional statements on wheat filed for the record are as follows:)

STATEMENT OF HON. BIRCH BAYH, A U.S. SENATOR FROM THE STATE OF INDIANA

Mr. Chairman, I appreciate this opportunity to present testimony to the Committee on Agriculture and Forestry on S. 1702. As the chairman knows, I have a natural interest in farming and in farm legislation. My testimony today is not directed toward the substance of the programs contained in S. 1702, however, but toward a single section (sec. 104), which would exempt users of wheat for industrial nonfood products from purchase of wheat certificates.

This amendment is not in the general interest of American agriculture and could set dangerous precedent for future farm legislation. This amendment would provide subsidy to one crop to invade the natural markets of another. It is an attempt to destroy the natural balance between the price levels of corn and wheat to allow a disruption of the market for these two crops. The net result will enable the utilization of additional quantities of wheat at the expense of similar quantities of corn. In doing so, it would establish a precedent which could be far reaching. It would establish the policy of Government intrusion into the marketplace to provide false markets for one crop at the expense of other commodities. It would set one farm group against the other.

The enactment of this section to allow use of wheat in industrial nonfood products without payment of the certificate price would create an artificial market situation from which we could find no retreat. We would establish a policy of subsidizing the production of wheat starch and create entirely new demand for facility to manufacture wheat starch well in excess of any capacity which would be normal. Once such legislation is passed, investment would be made and we would find ourselves tied to a policy of protecting the investment in wheat starch milling capacity by continued subsidy. Once this subsidy was started, it would be difficult to stop.

But why start the subsidy in the first place? It is not good economics to pretend that the price of wheat starch and the price of cornstarch should be competitive. I know what it costs to produce corn and wheat. I know corn costs about \$0.85 per bushel and that wheat costs about \$1.55 per bushel to raise. I know because I have had some experience in farming. Anyone who knows anything about the relative costs of production and the normal price levels of these two commodities knows that the traditional ratio of wheat to corn costs and prices is about 1.8 to 1.

It makes no sense then to create an artificial situation where we suggest that in order to create a market for wheat we will suddenly pay \$0.75 per bushel of

the taxpayers money to make wheat starch competitive to cornstarch. That simply doesn't make good sense.

I am as interested as the next Senator to develop new uses for farm products. I support the prodigious research effort being carried on to find new industrial uses, new processing methods, and new markets for all of our agricultural commodities. I do not believe, however, that it is right to pay subsidy prices to use this research to get one commodity into the markets of another.

Yet, this is the intent of this legislation.

Let us take a close look, too, at who will benefit from this legislation. The wheat starch subsidy will not put a nickel into the pockets of the farmer, now, or ever. The farmer will continue to receive his market plus certificate price for wheat. His price will not be improved because the wheat will sell at below production cost. The utilization of wheat in starch manufacture is a secondary use so that there will be no mammoth increase in the demand for wheat.

Who will benefit? Only the wheat miller who will be able to use subsidized wheat in his milling operation to produce wheat starch.

Who will feel the bad effect of this legislation? It will be the taxpayer—he will have to pay the certificate price to subsidize the miller. It will be the corn farmer—he will lose a strong cash market. It will be the corn products industry—they will suffer from cut-rate competition at the taxpayers expense.

It is astounding that the Department of Agriculture could recommend such a scheme which has this kind of effect on the farmer, the processor, and the taxpayer.

I can't believe the Department understands this proposal. Think of the havoc this would create in the use and pricing of corn. The wet-milling industry uses almost half of the corn produced on American farms that is not fed or exported. Disruption of 50 percent of the domestic cash market would so deflate corn prices so that a crisis would be created. The wet milling industry is the backbone of support for the corn market. It provides the high cash market that is essential to the maintenance of a stable corn economy.

There can be no question that the wheat starch is interchangeable in most commercial uses. In Australia where wheat is king, there is no cornstarch industry. All of the starch produced there is wheat or tapioca. It is used there because the normal price of wheat and corn is the reverse of ours. There, wheat is cheaper and wheat commanded the industrial market for the past 100 years.

Look at the amount of corn and wheat starch produced in this country and it is evident what the economics of starch production are. The cornstarch market is about 2.2 billion pounds as compared to the wheat starch market of 40 million pounds. This is what the normal pressures of competition have produced. Now, this committee is considering an attempt by wheat millers, supported by the Department of Agriculture, to provide a subsidy for industrial uses of wheat that threatens to realine the traditional markets for grain in the United States. This attempt simply seeks to pay wheat millers a subsidy to displace the cash market of millions of bushels of corn with noncertificated wheat.

Corn dominates the starch market for only one reason. It is cheaper. It is cheaper to produce and cheaper to sell. This is true today with both wheat and corn under programs in which Government policies influence the market price of both commodities. It was true before any Government program was developed.

My request, Mr. Chairman, is a simple one. Look carefully into the economics, the logic, and the precedents of approving section 104 of S. 1702. This legislation has nothing to recommend it, unless you are a wheat miller, a wheat starch producer or an adhesive manufacturer. The present market conditions are natural—and we all want American agriculture to seek its natural patterns with a minimum amount of governmental interference. The present distribution of the starch market provides a strong cash market to corn and accounts for half of the cash market in this country.

Section 104 seems simple and harmless, but I ask the committee's scrutiny. I ask your study, and I am sure your judgment will be similar to mine and you will strike section 104 from the bill here in committee.

Thank you.

STATEMENT OF DONALD M. COUNIHAN, COUNSEL, AMERICAN CORN MILLERS
FEDERATION

The American Corn Millers Federation is composed of dry corn millers accounting for more than 90 percent of the corn products milled by the dry process in the United States. Each year our industry grinds over 100 million bushels

of corn for a wide variety of food and industrial uses. This represents over \$125 million in cash to the American corn farmer. Our mills are located in every State of the continental United States.

In formulating legislation designed to assist the wheat farmers, we must be certain that we are not penalizing the producers and processors of competitive farm products or the consuming public. In this regard, we must give consideration to and respect the established market divisions among the various grains based on the cost of production.

In section 104(b) of this bill, it is proposed to amend the definition of "food product" as found in section 379d(d) of the existing law, so as to exclude the nonfood uses of wheat, including industrial uses, from the requirements of certification. In effect, this is similar to a refund of certificate costs in that the food wheat processors' certificate requirement will decrease substantially. We feel strongly that this departure from the existing definition will seriously curtail the competitive industrial relationships of the various grains which have been established for many years. Wheat is and has been a food grain. However, the decertification contemplated in section 104 will roll back the price of wheat so that it will compete with corn for industrial uses.

Industrial corn flours and industrial wheat flours are relatively interchangeable in many industrial processes. Our customers buy on the basis of price. The sale of subsidized industrial wheat flour most certainly will displace the sale of industrial corn flour somewhere along the line and will have a severe impact on our industry. Further, it must be recognized that industrial millers of corn and wheat produce the same product—starch. In this intensely competitive area, wheat- and corn-starch are interchangeable and price is dominant. This legislation will result in a substantial loss of the long-established industrial starch market by the corn millers.

It is unrealistic to substitute wheat for corn in this way for the simple reason that it costs more to produce a bushel of wheat than it does to produce a bushel of corn. For example, in Illinois the cost of producing a bushel of wheat is approximately twice that of corn.¹ Other broad analyses made by experts in the field of agricultural economics have been made which clearly support the view that it is not economic to produce wheat for industrial purposes in a free market.

It is true that the various Government agriculture programs have distorted the market picture substantially but any sound basis for dealing with the farm program must be founded on the cost of production of the various grains. Artificial manipulation of the markets of one grain at the expense of another by invoking subsidies is wasteful and prejudicial. Corn, the only grain grown in every State, has been used for industrial purposes since the days of the Civil War. As a result of decades of experimentation, research, investment and plain, ordinary hard work, large industrial markets have been developed by our industry. Enormous sums of money have been spent for research and capital equipment. These efforts have culminated in the development of many novel and creative uses for corn. For example, corn is used in core binder for use by foundries in the manufacture of iron castings. Equally important are the following uses for dry milled corn; gypsum boards; wallboard; paper and paper products; textiles; adhesives; charcoal briquetting; one beneficiation; fermentation; explosives; and others. Dry milled corn has additional industrial uses of such diversity that they are too numerous to mention here.

The point is: if these tremendous efforts in finding industrial uses for corn can be so easily wiped out by an uneconomic substitution of wheat for corn by Government action, how can the Government expect private enterprise to make long-range investments in research and production to find new uses for a farm crop?

It has been argued that this legislation will now make it possible for wheat processors to obtain wheat at world prices as corn processors do. This is not borne out by the facts. World prices for wheat are determined almost entirely by negotiated sales between governments of the world. They are set and have little relationship to the marketplace. The world price is thus not an economic price determined by supply, demand, production, and use; but rather it is a reference price on which subsidies are paid and import and export levies are collected. The current world price of wheat is about \$1.25 a bushel which is well below the cost of producing wheat in the United States. Thus, while

¹ Hinton, R. A. and Moeller, A. G., "Detailed Cost Report for Central Illinois, 1959 and 1960." AERR-48, College of Agriculture, University of Illinois, 1961.

the corn processor could not buy this raw material at below the world price, wheat processors could buy at the rolled-back domestic price which is currently below the world price. Thus, the world price argument is fallacious and does not result in an equitable pricing basis for the various grains.

The pitfalls in adopting and administering a program of partial decertification as is here proposed are well known and quite apparent to the Department of Agriculture. In a brief filed on March 29, 1965, in support of a motion for summary judgment by the Department of Justice, on behalf of the Secretary of Agriculture, in the case of *Morrison Milling Co. et al. v. Orville Freeman, et al.* (U.S.D.C. D.C., Civil No. 304-65), the Department of Agriculture took a position contrary with the one taken in this bill. At page 9 of that brief, in reply to an allegation by the plaintiffs that the certification should be varied, depending upon whether the final wheat product was partly for industrial purposes, etc., it is stated flatly:

"The implication in plaintiffs' argument is that the Secretary was under some legal duty to establish a *complex system* which would give effect to the *infinite variations* present in the condition of wheat and its usages. However, there is obviously nothing in the statute requiring the Secretary to evolve such as scheme * * *." [Emphasis supplied.]

Further, at page 10 of this brief, it is stated:

"The Secretary has devised a simple method—one that would not require an army of accountants and investigators—and since the regulations are not discriminatory in their objectives they must be upheld. We believe a complete answer to plaintiffs' argument that the deductions are insufficient is that there is no requirement by Congress that any deductions whatever be permitted from the bushel of wheat as purchased by the miller from the producer or other source." [Emphasis supplied.]

We agree with the Secretary's position as stated in this brief. We cannot see the need or the sense of an army of accountants and investigators. The farm program is already complicated enough. Once the wheat kernel enters the food-processing mill, it is impractical and unfair to try to separate the food and industrial uses by some arbitrary formulation. The product is flour and should be treated as such. We feel, therefore, all wheat entering a food-processing plant should be certificated.

But when U.S.D.A. testified before the Wheat and Feed Grains Subcommittee of the House Agriculture Committee in April of this year, it supported this legislation on the ground that present producers of wheat starch and gluten are in need of Government assistance to help them compete against growing imports of vital wheat gluten. Our industry did not arouse a similar concern when we were deluged by cheap tapioca starch coming into the country duty-free from abroad. However, U.S.D.A. expressly disallowed any desire to support legislation which would result in "the substitution of one agricultural raw product for another in existing industrial uses."

An effort was made to reach a compromise based on this U.S.D.A. position and at the suggestion of the House Wheat Subcommittee, the corn milling and wheat starch-gluten industries reached such a compromise only to have U.S.D.A. change its mind again. U.S.D.A. actively opposed the compromise proposal on the ground that it would discourage the industrial utilization of wheat. Needless to say, we have been dismayed and confused by the inconsistency and contradiction of the statements of the Department of Agriculture on this issue.

This wheat bill is designed purportedly to help the wheat farmer. But by either exempting industrial products obtained when processing wheat for food use from certification, or refunding for an industrial use, there are less certificates used. Either the wheat farmer gets less income because there are fewer certificates, or else the already overburdened taxpayer picks up the bill in the form of an increased cost for a loaf of bread. Not only does the consumer or wheat farmer pay for this program, but the corn farmers and corn millers must also pay by losing a substantial share of a hard-earned market to a subsidized competitor. It may be fair to make the consumer pay 1 cent more for bread to support the wheat farmer, but should he pay an additional amount to support an army of administrators and a subsidy for the industrial wheat processor?

If section 379d(d) of the present law is amended as proposed in S. 1702, our traditional industrial markets will be invaded and destroyed by subsidized wheat. This, we submit, is forcing the consumer and the corn producer and

corn processor to pay for permitting wheat to take over traditional industrial corn markets. Moreover, this artificial competition, nurtured by legislative fiat, could only be maintained so long as the subsidy—caused by removal of the domestic certification requirement from industrial-use wheat—is maintained and thus we create a vested interest in the indefinite continuation of the subsidy.

In conclusion, we believe that the amendment proposed by section 104(b) of S. 1702 will result in a costly and ill-advised subsidy, contrary to free market relationships between the various grains, which would severely injure the corn processing industry.

We strongly urge this committee to reject this amendment and any similar proposed change in the existing definition of food products contained in section 379(d) of the Agricultural Adjustment Act of 1938.

We are also opposed to the extension of the two-price plan for rice. The two-price plan for wheat has achieved nothing for the wheatgrower while increasing costs to the wheat processor. It is felt that the same thing would be true if rice were treated in a similar manner.

AMERICAN BAKERY & CONFECTIONERY WORKERS',
INTERNATIONAL UNION, AFL-CIO,
Washington, D.C., June 30, 1965.

Hon. ALLEN J. ELLENDER,
Chairman, Senate Committee on Agriculture and Forestry,
Washington, D.C.

MY DEAR SENATOR ELLENDER: I have just learned that the Senate Committee on Agriculture and Forestry has completed its public hearings on S. 1702. Since these hearings are now over I will not have an opportunity to personally present the viewpoint of the American Bakery & Confectionery Workers' International Union, AFL-CIO, except for your kindness in printing the attached statement as part of the record.

Our statement expressly supports the objectives contained in S. 1702 but takes strong exception to the manner in which some of the objectives are to be accomplished. Specifically, we feel that the attempt to provide parity payment for the wheat farmer through an increase in consumer prices on wheat products will have a disastrous effect on jobs and job opportunities for our members and will harm many of the employers of our members. However, the accompanying statement provides the details of our opposition to certain parts of S. 1702.

Thank you very much for your kindness and consideration.

Sincerely yours,

DANIEL E. CONWAY,
International President.

POSITION PAPER ON DEPARTMENT OF AGRICULTURE PROPOSAL FOR WHEAT PRICE INCREASE

The American Bakery & Confectionery Workers' International Union, AFL-CIO, is deeply concerned with the effect which an increase of 50 cents a bushel of wheat in the value of the domestic wheat certificate would have on the jobs and job security of our members, most of whom are engaged as production workers in bread, biscuit, cracker, macaroni, cake, pretzel, cereal, and other plants producing wheat products.

The proposal for this increase, contained in H.R. 7097 and S. 1702, is obviously intended to provide the farmer with a guaranteed and more just return for the product he produces. We are in favor of the farmer being treated fairly and feel that the increased payment sought is fully justified.

We do, however, sharply take issue with the means being sought to attain this greater measure of justice for the farmer. The method suggested might provide the farmer with a more just return, but we are certain that the farmer would prefer to achieve the justice he seeks without bringing about injustice to other segments of the population.

THE PRICE OF BREAD

It is generally conceded, by the Secretary of Agriculture and in the letter of transmittal of President Johnson which accompanied the omnibus agriculture bill, that the proposal will result in an increase in the price of bread to the consumer. It is also generally recognized that this increase will come to ap-

proximately 2 cents per pound of bread—or roughly an increase of 10 percent per pound for this basic food staple. In short, the consumer is expected to bear the full cost, and more, of this increase of wheat subsidy.

EFFECT ON THE MARKET

Such an increase in the cost per pound of bread and other wheat products is bound to be reflected in a further decrease in the per capita consumption of wheat and wheat products. Today the per capita consumption is down to less than 120 pounds—and going lower—as compared with over 200 pounds per capita 50 years ago.

The proposal is, as we see it, in direct conflict with the U.S. Department of Agriculture's recent action in encouraging an organization for the promotion of wheat and wheat products in which growers, millers, processors, industry, and labor are cooperating.

EFFECT ON JOBS AND JOB OPPORTUNITIES

With the substantial increase in the price per pound of bread, which is fully expected by the proponents of the proposed legislation, we foresee the flight of still more consumers from the bread and wheat products shelves of our urban and rural grocery stores and markets.

Such a rout will immediately bring its toll among those marginal bakeries in which production bakers are now employed. Most of these marginal operations are making heroic efforts to attain stability and are nearing success. The legislation, if adopted, will provide them with a coup de grace. These businesses will be forced to close and the workers will be out of work.

The price increase will also have its effect on the larger wholesale companies because of the shrinking market we feel is the inevitable results. This, too, will mean further loss of jobs.

We cannot too strongly emphasize that bakery production workers have been suffering and are presently suffering a sharp reduction in the number of job opportunities for workers employed in the industry. According to the U.S. Department of Labor there were 200,000 production workers in the bakery products industry in 1950. By 1964 the number had shrunk to 165,700 and the latest figures for February 1965 (Monthly Labor Review for April 1965) places the number of production workers at 160,800.

A recent survey by the Department of Labor on the effects of technological changes and automation on future employment, in 36 industries studied, places the baking industry high on the list of those industries which will continue to suffer a continuing decline in the number of production workers.

This proposal, added to the existing as well as the predicted impact of automation on the jobs and job security of our union members, will guarantee a quickening of the rate at which production jobs will disappear.

THE POVERTY PROGRAM

We wish further to point out that this increase of 50 cents in the value of the domestic wheat certificate, and its accompanying increase in the cost of bread and other wheat products, will have an adverse effect on those whom we are all trying to help through the war against poverty program. The American Bakery & Confectionery Workers' International Union, along with the rest of the organized labor movement, supports the antipoverty war without reservation. We must point out that the 23 cents per meal menus, developed by the U.S. Department of Agriculture, quite properly recognizes and places an emphasis on the value of bread, biscuits, cookies, and other wheat products. We need not belabor the obvious result which the increased cost to the consumer of the "staff of life" will bring to the pitiful 23-cents-per-meal menu put forth as possible under a poverty income. The proposal is inconsistent with and against the best interests of the program being developed and offered to families that come within the scope of the antipoverty program as far as their basic supply of daily food is concerned.

FOR A SUBSIDY TO THE FARMER

We are in favor of a subsidy to the wheat farmer to provide him with full parity payment. We are, as we have stated, in sharp disagreement with the method proposed to meet this necessary objective. The objective can best be

achieved by direct payment of the subsidy from general funds of the Government rather than through placing an increased burden on the consumer of wheat products. The economic well-being of the farmer is not alone the concern of the wheat products consumer but of the entire Nation. For this reason we pledge our support for an amendment to the proposed legislation which would provide for this more desirable method of providing a more just income to the farmers and, in our opinion, similar support should come from all wheat users.

DAIRY PRODUCTS

The CHAIRMAN. All right, Mr. Lake.
Who will be the chief spokesman?

STATEMENT OF GLENN LAKE, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION, NORTH BRANCH, MICH., AND E. M. NORTON, SECRETARY, NATIONAL MILK PRODUCERS FEDERATION

Mr. LAKE. Senator Ellender, and members of the committee, first, let me say that we in the National Milk Producers Federation appreciate this opportunity to appear before you. For the record, my name is Glenn Lake. I am a dairy farmer from North Branch, Mich. My milk is marketed through the Michigan Milk Producers Association, of which I am president. Also I am president of, and testifying on behalf of, the National Milk Producers Federation.

I want to say that as you have indicated from the names, we do have several witnesses from long distances, and in order to be sure that they all have a chance to get their statement in, I will brief mine, and you do all have a copy of the full text of my statement.

Mr. Chairman, am I correct in assuming I can put the full statement in?

The CHAIRMAN. Yes, indeed.

(Mr. Lake's prepared statement is as follows:)

My name is Glenn Lake. I am a dairy farmer from North Branch, Mich. My milk is marketed through the Michigan Milk Producers Association, of which I am president. Also, I am president of, and am testifying on behalf of, the National Milk Producers Federation.

The National Milk Producers Federation is an organization of milk marketing cooperatives with farmer members in 49 States and doing business in all 50 States, as well as in overseas markets. The federation represents the only nationwide consensus of dairy farmer thinking on national public policy. Our organization is deeply appreciative of the efforts of this committee and of the Congress in providing legislation which supplements the efforts of dairy farmers and their cooperatives in their efforts to build the best possible milk market.

The National Milk Producers Federation has generally supported national programs aimed at stabilizing farm prices and encouraging the development of orderly markets—programs which encourage farmers to use their production techniques and the productivity of their farms; programs which utilize this production to provide abundant milk and dairy products for U.S. consumers at prices competitive with other food products, and which take advantage of our ability to produce beyond the commercial market by using our resources to improve the diets of our youth and underprivileged at home and throughout the world.

Today the National Milk Producers Federation would like to present testimony in support of several proposals before this committee. My own remarks will be directed primarily in support of S. 399, an amendment to the Agricultural Marketing Agreement Act of 1937, which would provide authority for an alternative method of distributing returns among dairy farmers for milk sold in markets regulated by Federal milk marketing orders.

With me is W. J. Grant, general manager, Nebraska-Iowa Non-Stock Cooperative Milk Association, Omaha, Nebr., and vice president of the National Milk Producers Federation, who will present a short statement in support of S. 1838 which would authorize the Department of Agriculture to use Commodity Credit Corporation funds to purchase dairy products on the market for its feeding programs when such products are insufficient under the price-support program.

Eugene J. Vandembord of Dairymen's League Cooperative Association, Inc., New York, N.Y., will present a short statement in support of an amendment to the Agricultural Marketing Agreement Act authorizing programs in Federal orders for marketing promotion and research.

Stanley W. Beal, general manager, United Farmers of New England, Inc., Boston, Mass., will speak briefly in support of S. 1794, a proposal which would assure butter for use in the school lunch program from Commodity Credit Corporation stocks by placing a priority for school lunch use for U.S. children ahead of export sales.

Don Holtz, president, Land O'Lakes Creameries, Inc., Minneapolis, Minn., and a member of the board of directors of the federation, will speak in support of an amendment to the Agricultural Act of 1949 to provide an incentive to consumers to purchase more butter and, thus, benefit through lower prices while maintaining support levels to dairy farmers.

Also with me is E. M. Norton, secretary, National Milk Producers Federation. Any of us will be pleased to answer any questions that you or members of your committee may wish to direct toward us.

S. 399—DAIRYMEN'S CLASS I BASE PLAN

S. 399 further amends the Agricultural Marketing Agreement Act of 1937, as amended. The purpose of the bill is to provide an additional or alternative method for distributing returns received from the sale of milk by dairy farmers in markets regulated by Federal milk marketing orders.

Before explaining the details of the amendment and the reasons therefor, it should be called to the attention of the committee that the Agricultural Marketing Agreement Act is a tremendously important piece of legislation, not only for dairymen but for many other agricultural producers as well.

The Agricultural Marketing Agreement Act delegates to the Secretary of Agriculture authority to develop marketing agreements and orders. Marketing agreements or orders have been used with respect to milk and the other following commodities:

Almonds	Grapefruit	Plums
Anti-hog-cholera virus serums	Grapes (tokay)	Potatoes
Apricots	Lemons	Prunes
Avocados	Lettuce	Raisins
Carrots	Limes	Tangelos
Cauliflower	Nectarines	Tangerines
Cherries	Onions	Tobacco
Cranberries	Oranges	Tomatoes
Dates	Peaches	Walnuts
Filberts	Pears	
	Peas	

Such agreements and orders are also authorized for additional agricultural commodities as outlined in section 8c(2) of the act.

In the case of milk, marketing agreements or orders have been in use since 1933 and are presently authorized by the Agricultural Marketing Agreement Act of 1937, as amended. At present there are 75 milk marketing orders in effect. These orders establish terms of trade under which dairy farmers sell their milk. Priced under the program are fluid milk supplies for about two-thirds of the nonfarm population of the United States. Consequently, this program is of great significance to consumers in maintaining for them a supply of milk to meet their needs in an orderly fashion. And since approximately half of all milk marketed in the United States is priced under the program, marketing orders are a vital part of the entire dairy program of this great nation.

The principal purposes of the orders are to provide in the interest of both producers and consumers an orderly flow of the supply of milk in a manner to avoid unreasonable fluctuations in marketing, supplies, and prices and in the public interest.

The milk marketing order program through the individual orders issued under the act establishes terms of trade and minimum prices which handlers (milk plants) must pay in settling with producers (dairy farmers). Last year nearly \$2.5 billion worth of milk was priced to dairy farmers under the program. Although this program is operated by Government personnel, it cost in Federal funds is virtually nil. The cost of administration of the orders is levied against the handlers regulated under the 75 orders based on the volume of each handler's business. The only Federal cost is in maintaining a small administrative staff in the Department of Agriculture in Washington.

The two essentials of Federal milk marketing orders are (1) that they price milk purchased at milk plants regulated by the individual order on the basis of the use made of the milk by the plants, and (2) that they provide methods of distributing the money paid among producers who supplied the milk. Prices paid for milk for fluid use are sufficient to attract a supply of high-quality milk on a day-to-day basis to meet the requirements of consumers. Prices paid for milk in reserve, which is manufactured into dairy products, are established at levels competitive with manufacturing milk in the national market.

For purposes of distributing money among producers, the Marketing Agreement Act authorizes the Secretary (1) to use a single uniform price for all milk to all producers under an individual order, (2) to use a uniform price for each handler under an individual order based on the use of the milk by that handler, or (3) to use base rating plans in conjunction with either (1) or (2) under which producers are encouraged to deliver milk more nearly in line with market requirements than would result from a single uniform price. The basing provisions as presently authorized, however, have always been interpreted by the Department of Agriculture—irrespective of who the Secretary has been—as authority to use such base rating plans only for the purpose of realining milk production on a seasonal basis, with the base reestablished each year.

Dairy farmers, however, have believed for a long time that the base provisions of Federal orders, as currently used, are too limited in their application. The Secretary should be authorized to use bases which need not be reestablished each year, and which may be related to fluid milk sales as well as to the production history of farmers.

The addition of subparagraph (H) to section 608c(5) of the Agricultural Marketing Agreement Act, as incorporated in S. 399 and which we support, would grant authority to the Secretary to use this base plan in distributing money among dairy farmers. It would supplement the present system.

Passage of this legislation would not remove any provisions of the Agricultural Marketing Agreement Act. It would merely authorize an additional method for distributing returns among dairy farmers.

This amendment would not change any of the 75 milk marketing orders, unless proposals to incorporate this base plan were first considered in a public hearing and separately approved by producers in the same manner provided for the approval of marketing orders. This base plan could be terminated separately whenever the Secretary made a determination with respect to such provisions as is provided for the termination of an order. Disapproval or termination of such base provisions would not be considered disapproval of the order or of other terms of the order.

Under presently operated base plans, each producer must reestablish a base each year. The sum of all bases reflects the amount of milk produced during a 3- to 6-month period.

The new base plan would establish bases on production history, and in relation to the total requirements of the market for fluid milk, could be used for more than a single year. Under this plan a producer would know what the fluid market requirements were insofar as he was concerned. If the base plan were used, any producer would be free to market as much milk as he desired, but he would know that deliveries in excess of base would return no more than the competitive price for manufacturing milk in the national market.

The use of this base plan under Federal orders will not increase the price of milk. The authority in the act for establishing prices and the pricing criteria will not be changed. Congress can be assured that passage of this amendment to the basing provisions will in no way increase the price of milk to consumers or add to the tax burden.

The new base provisions would not result in barriers to the movement of milk. The movement of milk from area to area is a fact of life. These movements are taking place over wider areas and to a growing degree under the present

terms of Federal milk marketing orders. None of the other provisions of the act would be changed in any way, and section 8c(5)(G) of the act as interpreted by the Supreme Court in the case of *Lehigh Valley Cooperative Farmers v. United States* would remain unimpaired.

Under the present provisions of the act, Federal orders provide terms under which new producers enter a market and participate in distribution of returns. The terms are developed order by order through the public hearing process. Under this amendment, terms under which new producers would obtain a base would be developed in exactly the same manner, but within the guidelines provided in the amendment. Passage of this amendment would not prohibit entrance of new producers to a market.

Another item which has received attention in discussing this plan revolves around the transferability of bases among dairy farmers. It is sufficient to say that these terms also would be worked out through the public hearing process. We have more than 30 years' experience with the Federal order program, including the operation of base plans. It is our judgment that some degree of transferability of bases from farmer to farmer or farm to farm is essential and this is recognized by base plans in different Federal orders. This procedure accommodates economic shifts in resource allocation to improve efficiencies in farming and in marketing.

We emphasize, finally, that adoption of the amendment to the Marketing Agreement Act would not change any of the other provisions of the act. It would merely authorize the use of an additional method for distributing money among dairy farmers supplying a given market. It could be incorporated into an order only if approved by the dairy farmers supplying such market, and this approval would be separate and apart from approval of the issuance of the order itself.

Mr. LAKE. The National Milk Producers Federation is an organization of milk marketing cooperatives with farmer members in 49 States and doing business in all 50 States, as well as in oversea markets. The federation represents the only nationwide consensus of dairy farmer thinking on national public policy. Our organization is deeply appreciative of the efforts of this committee and of the Congress in providing legislation which supplements the efforts of dairy farmers and their cooperatives in their efforts to build the best possible milk market.

We are proud that the National Milk Producers Federation has generally supported national programs aimed at stabilizing farm prices and encouraging the development of orderly markets—programs which encourage farmers to use their production techniques and the productivity of their farms; programs which utilize this production to provide abundant milk and dairy products for U.S. consumers at prices competitive with other food products, and which take advantage of our ability to produce beyond the commercial market by using our resources to improve the diets of our youth and underprivileged at home and throughout the world.

Today the National Milk Producers Federation would like to present testimony in support of several proposals before this committee. My own remarks will be directed primarily in support of S. 399, an amendment to the Agricultural Marketing Agreement Act of 1937, which would provide authority for an alternative method of distributing returns among dairy farmers for milk sold in markets regulated by Federal milk marketing orders.

With me is W. J. Grant, general manager, Nebraska-Iowa Non-Stock Cooperative Milk Association, Omaha, Nebr., and vice president of the National Milk Producers Federation, who will present a short statement in support of S. 1838 which would authorize the Department of Agriculture to use CCC funds to purchase dairy products on

the market for its feeding programs when such products are insufficient under the price support program.

Eugene J. Vandembord of Dairymen's League Cooperative Association, Inc., New York, N.Y., will present a short statement in support of an amendment to the Agricultural Marketing Agreement Act authorizing programs in Federal orders for marketing promotion and research.

Stanley W. Beal, general manager, United Farmers of New England, Inc., Boston, Mass., will speak briefly in support of S. 1794, a proposal which would assure butter for use in the school lunch program from CCC stocks by placing a priority for school lunch use for U.S. children ahead of export sales.

Dan Holtz, president, Land O'Lakes Creameries, Inc., Minneapolis, Minn., and a member of the board of directors of the federation, will speak in support of an amendment to the Agricultural Act of 1949 to provide an incentive to consumers to purchase more butter and, thus, benefit through lower prices while maintaining support levels to dairy farmers.

Also with me is E. M. Norton, secretary, National Milk Producers Federation. Any of us will be pleased to answer any questions that you or members of your committee may wish to direct toward us.

S. 399 further amends the Agricultural Marketing Agreement Act of 1937, as amended. The purpose of the bill is to provide an additional or alternative method for distributing returns received from the sale of milk by dairy farmers in markets regulated by Federal milk marketing orders.

We wish at this point to emphasize the importance, and we emphasize to the committee the importance of the Agricultural Marketing Order Act as one of our most valuable tools in marketing milk not only for dairy products but as indicated in the statement for many other products, agricultural commodities.

Before explaining the details of the amendment and the reasons therefor, it should be called to the attention of the committee that the Agricultural Marketing Agreement Act is a tremendously important piece of legislation, not only for dairymen but for many other agricultural producers as well.

The Agricultural Marketing Agreement Act delegates to the Secretary of Agriculture authority to develop marketing agreements and orders. Marketing agreements or orders have been used with respect to milk and the other following commodities:

Almonds, anti-hog-cholera virus serums, apricots, avocados, carrots, cauliflower, cherries, cranberries, dates, filberts, grapefruit, grapes (Tokay), lemons, lettuce, limes, nectarines, onions, oranges, peaches, pears, peas, plums, potatoes, prunes, raisins, tangelos, tangerines, tobacco, tomatoes, and walnuts. Such agreements and orders as also authorized for additional agricultural commodities as outlined in section 8c(2) of the act.

In the case of milk, marketing agreements or orders have been in use since 1933 and are presently authorized by the Agricultural Marketing Agreement Act of 1937, as amended.

At present there are 75 milk marketing orders in effect.

Last year nearly two and a half billion dollars' worth of milk was priced to dairy farmers under the program. These orders establish

terms of trade under which dairy farmers sell their milk. Priced under the program are fluid milk supplies for about two-thirds of the nonfarm population of the United States. Consequently, this program is of great significance to consumers in maintaining for them a supply of milk to meet their needs in an orderly fashion. And since approximately half of all milk marketed in the United States is priced under the program, marketing orders are a vital part of the entire dairy program of this great Nation.

The principal purposes of the orders are to provide in the interest of both producers and consumers an orderly flow of the supply of milk in a manner to avoid unreasonable fluctuations in marketing, supplies, and prices and be in the public interest.

The milk marketing order program through the individual orders issued under the act establishes terms of trade and minimum prices which handlers (milk plants) must pay in settling with producers (dairy farmers). Last year nearly \$2.5 billion worth of milk was priced to dairy farmers under the program. Although this program is operated by Government personnel, its cost in Federal funds is virtually nil. The cost of administration of the orders is levied against the handlers regulated under the 75 orders based on the volume of each handler's business. The only Federal cost is in maintaining a small administrative staff in the Department of Agriculture in Washington.

The two essentials of Federal milk marketing orders are:

(1) That they price milk purchased at milk plants regulated by the individual order on the basis of the use made of the milk by the plants; and

(2) That they provide methods of distributing the money paid among producers who supplied the milk.

Prices paid for milk for fluid use are sufficient to attract a supply of high-quality milk on a day-to-day basis to meet the requirements of consumers. Prices paid for milk in reserve, which is manufactured into dairy products, are established at levels competitive with manufacturing milk in the national market.

For purposes of distributing money among producers, the Marketing Agreement Act authorizes the Secretary:

(1) To use a single uniform price for all milk to all producers under an individual order;

(2) To use a uniform price for each handler under an individual order based on the use of the milk by that handler; or

(3) To use base rating plans in conjunction with either (1) and (2) under which producers are encouraged to deliver milk more nearly in line with market requirements than would result from a single uniform price. The basing provisions as presently authorized, however, have always been interpreted by the Department of Agriculture—irrespective of who the Secretary has been—as authority to use such base rating plans only for the purpose of realining milk production on a seasonal basis, with the base reestablished each year.

Dairy farmers, however, have believed for a long time that the base provisions of Federal orders, as currently used, are too limited in their application. The Secretary should be authorized to use bases which need not be reestablished each year, and which may be related to fluid milk sales as well as to the production history of farmers.

The addition of subparagraph (H) to section 608c(5) of the Agricultural Marketing Agreement Act, as incorporated in S. 399 and which we support, would grant authority to the Secretary to use this base plan in distributing money among dairy farmers. It would supplement the present system.

Passage of this legislation would not remove any provisions of the Agricultural Marketing Agreement Act. It would merely authorize an additional method for distributing returns among dairy farmers. Put another way, it would supplement the present milk market order system and would add an additional tool for dairy farmers and their marketing cooperatives to use in battling economic adversity which, of course it is a well-known story as far as the cost-price squeeze is concerned.

Passage of this legislation, on the other hand, would not remove any provisions of the Agricultural Marketing Agreement Act as it now stands. It would merely authorize this additional method for distribution of returns.

This amendment would not change any of the 75 milk marketing orders, unless proposals to incorporate this base plan were first considered in a public hearing and separately approved by producers in the same manner provided for the approval of marketing orders. This base plan could be terminated separately whenever the Secretary made a determination with respect to such provisions as is provided for the termination of an order. Disapproval or termination of such base provisions would not be considered disapproval of the order or of other terms of the order.

Under presently operated base plans, each producer must reestablish a base each year. The sum of all bases reflects the amount of milk produced during a 3- to 6-month period.

The new base plan would establish bases on production history, and in relation to the total requirements of the market for fluid milk, and we think this is of great concern and great importance to our dairy farmer members because as our bases or as the uniform payment plan is used now, does not reflect the real need of the market and does not show the producer precisely what that need is.

Under this plan a producer would know what the fluid market requirements were insofar as he was concerned. If the base plan were used, any producer would be free to market as much milk as he desired, but he would know that deliveries in excess of base would return no more than the competitive price for manufacturing milk in the national market.

The use of this base plan under Federal orders will not increase the price of milk. The authority in the act for establishing prices and the pricing criteria will not be changed. Congress can be assured that passage of this amendment to the basing provisions will in no way increase the price of milk to consumers or add to the tax burden.

The new base provisions would not result in barriers to the movement of milk. The movement of milk from area to area is a fact of life. These movements are taking place over wider areas and to a growing degree under the present terms of Federal milk marketing orders. None of the other provisions of the act would be changed in any way, and section 8c(5)(G) of the act, as interpreted by the Supreme Court in the case of *Lehigh Valley Cooperative Farmers v. United States*, would remain unimpaired.

Under the present provisions of the act, Federal orders provide terms under which new producers enter a market and participate in the distribution of returns. The terms are developed order by order through the public hearing process. Under this amendment, terms under which new producers would obtain a base would be developed in exactly the same manner, but within the guidelines provided in the amendment. Passage of this amendment would not prohibit entrance of new producers to a market.

Another item which has received attention in discussing this plan revolves around the transferability of bases among dairy farmers. It is sufficient to say that these terms also would be worked out through the public hearing process. We have more than 30 years' experience with the Federal order program, including the operation of base plans. It is our judgment that some degree of transferability of bases from farmer to farmer or farm to farm is essential and this is recognized by base plans in different Federal orders. This procedure accommodates economic shifts in resource allocation to improve efficiencies in farming and in marketing.

We emphasize, finally, that adoption of the amendment to the Marketing Agreement Act would not change any of the other provisions of the act. It would merely authorize the use of an additional method for distributing money among dairy farmers supplying a given market. It could be incorporated into an order only if approved by the dairy farmers supplying such market, and this approval would be separate and apart from approval of the issuance of the order itself.

Mr. Chairman, that concludes a briefing of the statement which I have submitted.

The CHAIRMAN. If S. 399 is approved, don't you think that it would mean more money for the producer and less cost to the Government?

Mr. LAKE. Well, certainly it could well mean——

The CHAIRMAN. That was the objective of it.

Mr. LAKE. It would mean less cost to the Government insofar as fluid milk producers in the markets produce more in line with the fluid requirements.

Certainly for that portion of the milk delivered within the base in markets where it might be adopted the producers there would get a higher price.

The CHAIRMAN. Any questions?

Senator AIKEN. I have a couple. You say the purpose of this is to increase the income of the dairy farmer?

Mr. LAKE. Yes, that is the purpose, Senator Aiken.

Senator AIKEN. But you also said there would be no increase in prices to the consumers?

Mr. LAKE. It is not contemplated.

Senator AIKEN. And no increase in the cost to the Government?

Mr. LAKE. That is correct.

Senator AIKEN. Where is your increased income to the farmer coming from?

Mr. LAKE. Well, the increase to the farmer would come from his receiving a higher price for that milk which he delivered for his fluid market.

In other words, it would not be diluted with the amount of milk that goes for manufactured products as is now the case.

Senator AIKEN. Yes.

In an order area where class II milk is for table cream, you anticipate he would get the higher price for his class II milk also?

Mr. LAKE. Yes.

Senator AIKEN. But get the same for his class I?

Mr. LAKE. Well, the legislation in itself, Senator, would not—is not predicated on the increasing of class I prices.

Senator AIKEN. You are supporting the Senate bill or the House bill as approved and reprinted on June 1?

Mr. LAKE. The House bill, if I recall the various amendments, it has been—with the exception of opposition to a couple of the amendments we do support the House bill, and we support this bill.

Senator AIKEN. What would those two amendments be?

Mr. LAKE. Well, the one amendment that gives us particular concern, of course, is the amendment which attacks the bloc voting provision of cooperatives, has—that is the one that gives us particular concern.

Senator AIKEN. Wouldn't elimination of bloc voting pretty much wind up the milk marketing order program? They not only provide that each dairyman votes for himself and outlaw bloc voting, but in case they want to change they would still have to delete the provision by the same method. No more bloc voting; they seem to be quite insistent on that, too.

Mr. LAKE. I understand that to be true. The provision, of course, the principle incorporated in the version reported by the House Dairy Subcommittee, I believe, applied only to the amendments. This amendment, that is the amendment dealing with class I bases, but going further on your question, it would be my judgment that if bloc voting was deleted from the Marketing Agreement Act it would mean the end of Federal milk marketing orders in the long run.

Senator AIKEN. Isn't that what some of the largest distributing corporations have been advocating for a long time?

Mr. LAKE. I believe that there have been many who have advocated that.

Senator AIKEN. And you suggest we look at the House bill very closely before accepting it?

Mr. LAKE. I certainly do.

Senator AIKEN. What is the second amendment?

Mr. LAKE. The producer-handler producer-distributor proposal, as I recall it, which would exempt them from Federal milk orders.

Senator AIKEN. And they would grow very rapidly.

Mr. LAKE. I believe that we could expect them to grow. Certainly if we went no further than to take a look at what has been the history of growth that this would be true.

Senator AIKEN. You would go along with the proposal to sell or lease bases? The producer-handlers seem to be much interested in that phase of the bill.

The CHAIRMAN. Any further questions?

Senator AIKEN. Yes; I have two or three more, but I didn't get an answer to my last question.

The CHAIRMAN. You were waiting for an answer?

Mr. LAKE. Would you restate that again?

Mr. NORTON. He asked if the producer-distributors wouldn't be interested in sale or lease of bases.

Senator AIKEN. Yes; I guess maybe he nodded his head. Producer-handlers would be very much interested; they pay nothing into the pool, do they?

Mr. LAKE. Producer-handlers, no.

Senator AIKEN. Therefore, the more milk distributed by producer-handlers the less is paid into the pool to be distributed among the producers that are members of the pool, and the greater the assessment on the members who do pay into the pool.

Mr. LAKE. That is correct.

Senator AIKEN. Yes.

Just one or two others.

Do you think this new method would require much policing? I wouldn't ask that you except we had it in Vermont once.

Mr. LAKE. I think that, of course, we have to be realistic in the fact that any regulation which brings a supply to a market requires certain policing and for each additional one you add perhaps there would need to be policing.

Senator AIKEN. As you regulate it, you would. Because as I recall it the milk flowed through the wire fences when they regulated it in 1939-40 in Vermont and nobody sent less than their base to the market. Even when their cows went dry they still sent their base to the market.

Another question: Suppose one area votes for bases, and another one does not, could the producers in the area that did not vote for the base plan then ship milk into an area that had voted for the base plan for class I milk?

Mr. LAKE. Yes, I think, Senator, being realistic about milk marketing, we would have to say that if those producers can find a buyer in that market it will.

Senator AIKEN. You don't anticipate any change in human nature between now and the time when this program might take effect?

Mr. LAKE. No, Senator, not as human nature applies to milk marketing, I don't think it will change much.

Senator AIKEN. Of course not, human nature being what it is.

About 35 percent of the milk produced in the order areas is used for manufacturing purposes; I am just guessing at that. That is produced under the same sanitary conditions that the class I milk is produced. Would that have to meet the competition of manufacturing milk produced in an area where much lower sanitary rules were in effect?

Mr. LAKE. Yes, Senator. But it does now, and I can go home to our Michigan markets, where we manufacture, we are one of the largest cottage cheese manufacturers of the Mississippi, and our cottage cheese does have to compete with so-called grade B or uninspected milk.

Senator AIKEN. To even up the situation, why shouldn't the producers of manufacturing milk produce that milk under the same sanitary requirements as those who produce it for other food purposes?

Mr. LAKE. Well, strictly looking at it—

Senator AIKEN. Wouldn't that solve our problem by having a uniform sanitary code for producers of any milk which is intended for human consumption?

Mr. LAKE. I think it would satisfy the feeling of a lot of fluid milk producers but I don't know that it would answer all the problems, Senator. I think you will find most of the producers who are members of a cooperative producing fluid milk markets do feel this way, but we realize there are a lot of other implications, economic and otherwise that present hurdles to get over here.

Senator AIKEN. One of those hurdles is that if the same sanitary requirements were imposed on the producers of manufacturing milk maybe half of them would be forced out of business, wouldn't they?

Mr. LAKE. I would anticipate.

Senator AIKEN. A good share of them would be forced out of business.

I don't think I have any more questions. I am worried about the elimination of block voting because it looks to me like somebody teamed up with the wrong crew there.

The CHAIRMAN. As I recall under the act it was intended that the farmers who did come under the sanitary codes would produce for direct consumption and because of that would receive a minimum price fixed by the Department.

Now, I am surprised that my good friend from Vermont should want to put everybody in that same situation. I don't see why we should force sanitary requirements on producers who don't produce for direct consumption. Let's let those producers get the normal support price that is fixed for manufacturing milk and do away as much as possible with this blend price.

Senator AIKEN. Well, it depends on whether you are figuring on producing for human consumption and your effect on human beings. The same bugs——

The CHAIRMAN. I think you have in Michigan and, in fact, that whole area out there, a lot of milk that is used to make butter, cheese, and other products.

Senator AIKEN. Ice cream, cream.

The CHAIRMAN. Yes.

I am sure that they must conform to some kind of standards.

Senator AIKEN. They do, but——

The CHAIRMAN. What causes me to take issue is that in some of these milksheds only 39 percent of the amount of milk that comes under the order is used for direct consumption and the rest of it is used to make butter and cheese and what have you, and it would seem to me that that is one of the reasons why many of the milk producers are receiving less than they should. That would be one reason to my way of thinking that so much of it goes to Uncle Sam by way of butter and other products.

That is why I believe that something ought to be done, because this milk program has been very costly. I placed some figures in the record showing that the cost for 1964 amounted to \$746.5 million. I know that if we continue such expensive programs it might affect other programs and that is what I am going to try to stop if I can.

Senator AIKEN. Mr. Chairman, I want to call attention to the fact that the purchases by Uncle Sam have come down awfully close to the vanishing point now for the month of May.

The CHAIRMAN. Yes, that is because you gave a lot of it away and sold it abroad and lost a lot of money on it.

Senator AIKEN. You can't give it away until you take it in and that is the trouble. There was no cheese taken in whatever during the month of May. This is on good authority, too, 923,000 pounds of butter compared with 5,700,000 pounds last year, 13,000 pounds of powdered milk compared with 37,000 pounds last year for the month of May.

I believe the report of the Department shows that consumption of fluid milk is up about 3 percent over a year ago, production is down about one-half of 1 percent.

The CHAIRMAN. Of course, it is going down; I will admit that.

Senator AIKEN. We have made commitments to foreign countries which we can't begin to meet now and they are beginning to kick.

The CHAIRMAN. Estimated cost of all of these programs we now have for 1965 is \$408 million.

Senator AIKEN. You have included \$100 million each for school lunch and school milk.

The CHAIRMAN. Yes. Except for the fact we have these surpluses—

Senator AIKEN. That is estimated. But we are not coming up to the estimates. That is why they oversold foreign countries. As far as butter goes—I was wrong on butter. That was payment-in-kind. We took in 37 million pounds compared to 40 last year. I was reading the payment-in-kind figures, but the other figures are about the same, powdered milk took in 98 million pounds compared to 196 million pounds a year ago, and last year there was a substantial drop from the year before that.

I don't understand, though, Mr. Chairman, why they send our butter overseas for 30 cents a pound and then ship oleo into a dairy area at a surplus time of year, which they are doing and have been doing all this spring.

The CHAIRMAN. You mean by way of gifts?

Senator AIKEN. By way of school lunch and welfare programs. And the railroads love it, of course.

The CHAIRMAN. You mean the oleo?

Senator AIKEN. Oleo. They love the transportation costs. [Laughter.]

But I can't understand why they should let us get short of butter here, particularly during the surplus season, and at the same time sell it overseas for 30 cents a pound which is within a cent or two of the price of oleo.

The CHAIRMAN. Some people think oleo is a mighty good substitute for butter.

Senator AIKEN. If we keep on, we will all have to eat it.

Mr. LAKE. I should like to say I appreciate the opportunity to present the statement.

Senator COOPER. I would like to ask one question. On page 5 next to the last paragraph, last sentence.

Mr. LAKE. Next to the last paragraph.

Senator COOPER. Yes.

If the base plan were used, any producer would be free to market as much milk as he desired, but he would know that deliveries in excess of base would return no more than the competitive price for manufacturing milk in the national market.

Who would pay that return to the producer on the excess that he marketed?

Mr. LAKE. Whoever paid the producer, the producer is selling in a market, of course, the milk would be pooled and the milk over and above the class I base price would be priced at this national manufacturing level, and, of course, this would be the price that the buyer or processor would pay producers.

Senator COOPER. Well, now, would the return on that excess or any part of it be paid by the Government? Would it increase the cost to the Government?

Mr. LAKE. No; the answer is "No."

Senator COOPER. All right.

Mr. NORTON. Senator, if I may, the Government doesn't buy the raw milk so somebody has to buy the milk before the Government gets it and he would pay it.

Senator COOPER. I want to know if at some point along the line that price would result in a Government payment.

Mr. NORTON. It would be at or near the Government support level and that level does create the price, yes.

Senator COOPER. It could be then that if the market is in excess it could result in a higher cost to the Government?

Mr. NORTON. It would be the same cost. They set the price, and they would buy the product anyway.

Unless you are proposing to do away with the support program entirely, and then the milk would drop to practically nothing but as long as there is a support level the Government stands the risk of taking in the product in any event.

Senator COOPER. I know the program.

Mr. NORTON. Yes.

Senator COOPER. My point was that that sentence could mean that it could result in a higher cost to the Government.

Mr. NORTON. No.

Mr. LAKE. Mr. Chairman, if there are no further questions on S. 399 I would like to be excused, if I may.

Senator McGOVERN. Could I ask one question, Mr. Chairman?

The CHAIRMAN. Surely.

Senator McGOVERN. Mr. Lake, we have a situation in Sioux Falls where our milk price is somewhat higher than it is in the Minneapolis area, and so our dairies are complaining about being in a disadvantageous position with reference to milk coming in from Minnesota.

Now, it looks like you have got two alternatives, either we have to lower the price to our producers, which we don't want to do or else our dairies continue to be in a difficult position which is also unpleasant.

Is there any other alternative that is open to us, other than just making out as best we can with this cheap milk from Minnesota?

Mr. LAKE. Well, Senator McGOVERN, I appreciate the dilemma that your producers are in in Sioux Falls. I know something about the situation and I think simply I can agree that we don't want to ask in any case the producers' price to be lowered. It does seem that in the whole Federal order pricing scheme that more careful attention has to be given to some alinement.

One answer, and I expect the Minnesota farmers would share my view, would be to raise the Minnesota price.

Senator McGOVERN. That is what we would like to see done.

Is there any problem with competition here from the chainstores? Have you had complaints on that around over the country?

Mr. LAKE. Well, yes; there are certainly competitive problems which I believe are at least in part generated by some of the big chains.

Mr. NORTON. Mr. McGovern; of course, Senator, the situation, too, in South Dakota is one of natural-going phenomena with the chainstore in this instance and a handler dairy who has a contract with the chainstore, and it isn't going to make much difference whether the milk that presumably can't move out of Minnesota in a lot of instances, but does go into South Dakota, is priced higher or lower. The contract with the chainstore very likely has an escalating clause in it and if the price in Minnesota went higher the milk to the chainstore would go up, too.

If it went down they would go down also.

But the one point involved here is that the handlers who believed they can compete and secure that particular piece of business, in fact, cannot, no matter what their competitive position might be.

Senator McGOVERN. Because they still would not be able to.

Mr. NORTON. The dairy has a contract with the chainstore, and if the South Dakota price went down, their packaging point, which is located in Minnesota, would still remain in Minnesota and still would be packaged there and it would be brought in to meet a lower South Dakota price.

I think it is a competitive problem that is growing. I think concentration of packaging units in large chainstores, it is getting larger, and I think it will continue to get larger.

The CHAIRMAN. I had understood Senator Mondale wanted to ask a question.

Senator MONDALE. Just one question.

I wanted to explore why it is those cheap customers in South Dakota prefer the wholesome fresh milk of our Minnesota dairy farmers over that produced down there.

I was very pleased to see——

Senator AIKEN. Because the chainstore says it is better for them.

Senator MONDALE. It is the first time I have been allied with chains. I was pleased to note your testimony at the top of page 6 in which you state the federation does not wish by the proposed class I marketing plan to place any barriers on the movement of milk and to retain section 8c(5)(G) in full force and effect as interpreted by the *Lehigh Valley* case. I assume that you would have no objection if we would include an amendment in the class I proposal which spelled out the clear meaning of this paragraph, and stated in effect that regardless of anything else in the act or in this amendment the provisions of 8c(5)(G) should apply.

Mr. LAKE. I think that is about what we have said here. That none of the other provisions of this act would be changed in any way, and section 8c(5)(G) of the act as interpreted by the Supreme Court in the case of *Lehigh Valley Cooperative Farmers* against the United States would remain unimpaired.

Senator MONDALE. That is the way I understand it and you would have no objection to an amendment that would make it clear that the provisions of this section shall apply to the total act as amended?

Mr. NORTON. Senator, this section that you refer to was referred to the Department of Agriculture Solicitor's Office and the Solicitor there maintains that is what the section is—S. 399 means, and we certainly do not object to any longer opinion, shorter opinion, amendment to or inclusion in the law which clarifies this to anyone's satisfaction. We have no intent whatsoever to change the intent of the *Lehigh Valley* case.

The CHAIRMAN. It might add confusion to it.

Mr. NORTON. Right.

Senator MONDALE. I want to clarify it.

Mr. NORTON. We have no objection whatsoever.

Senator MONDALE. This is sort of the language:

Provided, however, That nothing herein contained nor any order, provisions adopted hereunder shall in any manner or to any extent amend, modify or affect the applicability of the effect of 8c(5)(G) with respect to any order applicable to milk and its products.

In other words, just pin it down.

Mr. NORTON. That will do it. If you think that will do it we are for that.

Senator AIKEN. Mr. Chairman, couldn't we go just a little further because I think if all milk used for human consumption were required to be produced under the same sanitary conditions, and there are 83 of them that we have at home, then that would eliminate virtually all opposition to its going from market to market.

But, you see unless that is done, the milk used for manufacturing purposes in the marketing order areas in New England where it has to comply with 83 conditions, including the chemical contents of the water and all that stuff, would have to compete with those who don't have to meet those conditions.

Now, they do have to meet sanitary conditions, I am sure and they should. I am not trying to do away with that, but I am saying that no one should try to get one advantage over another area unless they are willing to give up a present advantage which they hold now. I think that would be a good arrangement.

Senator MONDALE. This proposal I am suggesting does not get at sanitary standards that a community might have.

Senator AIKEN. No.

Senator MONDALE. One question that I have and I think I have taken more time than I should and that that so many of the people have testified thus far, Mr. Chairman, throw out this class I proposal as though it is going to be the mark of substantial improvement to the dairy farmers' income, but I think you correctly point out this is optional to any milk market area.

Do you have reason to believe if this were adopted several order areas would want this provision?

Mr. LAKE. Yes, I think several of the major markets would.

Senator MONDALE. Would want it?

Mr. LAKE. Yes.

The CHAIRMAN. Mr. Lake, you may leave.

Mr. LAKE. All right, I think Mr. Norton can answer any of the other questions.

The CHAIRMAN. I am sure he can.

Senator AIKEN. May I just point out one thing, Mr. Chairman, in this discussion of milk producing areas. I don't like to disagree with

by friend from Minnesota but I believe 8 percent of the milk produced in Minnesota is sold in market order areas and 89 percent of the milk sold in Vermont is sold in a market order area. I think the other 11 percent has to meet the same requirements except for two or three small cheese plants.

So, it does make a difference and I would like to see more of Minnesota, particularly the manufacturing areas, adopt marketing orders arrangements.

Mr. NORTON. Mr. Chairman, I would just like to clarify one point. There is no Federal order existing that provides in it a sanitation requirement on milk—one.

Two, I think we have gone a long distance down the road in the last 4 or 5 years toward a uniform milk standard by adoption of the U.S. Public Health Code through the milk shippers' agreement, Minnesota being a signatory to that agreement. There are 37 States now. Each plant must be inspected on its own, and I think we are moving along pretty well toward uniform sanitation.

Now, the health departments of each State apply these standards.

In other words, it is not an outside agency that comes in and on a predetermined basis determines that this milk in Minnesota or Vermont is not going to move. If your own State department can't grade it properly, or your own milk division or department of agriculture won't grade the milk on the USPH standard you certainly couldn't expect another State to grade it.

Senator AIKEN. All of the sanitary standards adopted by the States are legislated. Thirty-seven States have; that leaves thirteen.

Mr. NORTON. Yes.

Senator AIKEN. Then we would have only 13 States affected by my suggestion. It doesn't matter whether it is 13 or 36.

The CHAIRMAN. All right.

Who else?

Mr. NORTON. Mr. Grant would like to make a statement on a bill before the committee.

STATEMENT OF W. J. GRANT, VICE PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION, OMAHA, NEBR.

Mr. GRANT. I have a very brief statement I would like to read; it is on S. 1838, introduced by Senator McGovern from my neighboring State of South Dakota.

My name is W. J. Grant. I am general manager of the Nebraska-Iowa Non-Stock Cooperative Milk Association whose general offices are located at 319 North 72d Street, Omaha, Nebr.

Our association has as members approximately 2,300 farmers in Nebraska and Iowa. We supply most of the fluid milk to handlers regulated by the Nebraska-western Iowa Federal milk marketing order. Also, we operate at Norfolk, Nebr., one of the most modern dairy manufacturing plants in the United States. At this plant we produce butter and nonfat dry milk.

Our association is a member of the National Milk Producers Federation, and I have served as vice president of the federation since 1963. The federation is a staunch advocate of the price-support program authorized by the Agricultural Act of 1949 and of the Federal milk mar-

keting order program authorized by the Agricultural Marketing Agreement Act of 1937. Dairy farmers across the Nation, as well as the dairy industry and the consuming public, have benefited by the stable prices and marketing conditions brought about by these two important programs. These programs have been successful mainly because the Congress has been foresighted in providing supplementary programs for using dairy products produced in excess of the commercial market requirements.

Fortunately, milk and dairy products are items which have found their way into hungry stomachs of our schoolchildren, our Armed Forces personnel, veterans' hospital personnel, low-income groups, and our foreign friends. Making food available where needed is preferable to rationing production and hunger.

As a practical matter, it is not always possible to balance Government purchases of dairy products for price support with the needs of Government for its feeding programs. We have often stated that milk production cannot be turned off and on like a faucet. By the same token, we cannot feed children and other people on an intermittent basis depending upon available stockpiles of food in Government hands.

S. 1838, introduced by Senators McGovern and Mundt, would insure a continuous supply of dairy products for feeding programs deemed necessary by the Government. Passage of this bill would permit the Government to use stocks of dairy products accumulated under the price-support program to the extent available. In addition, it would authorize the Government to purchase necessary dairy products on the open market with CCC funds when such products are not available from price-support operations but are needed to fulfill commitments to hungry people both in the United States and abroad.

The authority provided by S. 1838 would assure supplies of dairy products for feeding programs. At the same time, it would strengthen markets for dairy farmers. It would be a forward step in capitalizing upon our ability to produce milk and dairy products efficiently rather than think in terms of reducing production when there is hunger. The National Milk Producers Federation urges favorable consideration of S. 1838.

The CHAIRMAN. To what extent would that bill increase the present costs of the present program?

Mr. GRANT. On the contrary, it would be possible that it wouldn't increase it at all. If Commodity Credit stocks were down and the Secretary went out and purchased at market prices, one thing you would have eliminated especially in export overseas is the need of handling it through Commodity Credit warehouses which would result in some savings.

The CHAIRMAN. In other words, you would authorize purchase at market prices for the purpose of providing continuity of foreign and domestic donation programs?

Mr. GRANT. I don't follow you.

The CHAIRMAN. Is that the idea?

Mr. GRANT. Pardon? To some extent, yes.

The CHAIRMAN. And that is the objective?

Mr. GRANT. That is correct.

The CHAIRMAN. Any questions?

Who is next?

Senator COOPER. Is there any estimate of the cost of this program?

Mr. GRANT. No, there isn't.

Senator COOPER. I know it would be difficult to estimate.

Mr. NORTON. It would be difficult to estimate, Senator, because this would take priority, for instance, over your sales abroad for "soft" currencies at reduced prices and so forth.

What that would amount to in the long run I just wouldn't know. I wouldn't make a guess.

The CHAIRMAN. One thing, it would probably be an incentive to produce more milk and byproducts of milk, for a greater market.

Senator AIKEN. The only thing that will get more milk will be to give the women on the dairy farm a vacation. They can't get a vacation or a Sunday off. Four dairies in my community which milk 40, 50 cows have gone out of business and that was the reason I am satisfied they went out, they can't hire help.

The CHAIRMAN. The reason I ask whether it would involve additional costs is that there may be a tendency to increase production so as to meet both foreign requests as well as the domestic.

Mr. GRANT. Let me point out just one other thing, too, which makes this legislation desirable in my opinion. Take for example, last fall Commodity Credit stocks were down, they were low, and under the PIK program, under the auspices of Public Law 480 many millions of pounds of powder were moved overseas and this in turn kept the demand up to where they reduced the prices without any additional cost to the Government was moved up from 25 to 30 cents per hundred-weight.

Senator AIKEN. Sold at approximately half price?

Mr. GRANT. Yes.

Senator AIKEN. I don't know, maybe we could get more for it overseas, but other countries would gladly pay half the price—8 cents. What is the support price—15, 16 cents?

Mr. GRANT. 14.

Senator McGOVERN. Mr. Grant, isn't one of the basic purposes of this to give some degree of continuity?

Mr. GRANT. Yes.

Senator McGOVERN. Because the bulk of the milk and dairy products that we are moving through this program go into things like school lunch program. You run a great risk if you start one of these programs and have to interrupt it in the middle of the school year.

The CHAIRMAN. Because of shortage?

Senator McGOVERN. Yes.

The CHAIRMAN. I say that is what would cause the production of milk to increase.

Senator McGOVERN. If you had this authority, Mr. Chairman, as I understand it, you could move in on a short-term basis to buy what you needed to keep the program going, and as the witness has said that might avoid taking the powder into CCC stocks at a later point anyway. So that I think it is really a rather modest program that would not represent much of an outlay but it would give some security and continuity to these programs that we think are important overseas.

Mr. GRANT. If the Secretary would have had this authority last

fall they could have prevented taking steps on our export program to force products into Commodity Credit so they could move it overseas.

This would have been prevented.

The CHAIRMAN. All right.

Mr. NORTON. Mr. Stanley Beal is next.

**STATEMENT OF STANLEY W. BEAL, NATIONAL MILK PRODUCERS
FEDERATION, BOSTON, MASS.**

Mr. BEAL. I have a rather brief statement I would like to submit, Senator, in support of S. 1794.

My name is Stanley W. Beal. I am general manager of the United Farmers of New England, Inc., Boston, Mass., a cooperative association of approximately 1,547 members located in Massachusetts, Rhode Island, Vermont, and New Hampshire; I might say the great majority being from the State of Vermont.

The United Farmers of New England operates its own plants and distributes milk in the Boston metropolitan area and its environs. We operate under the terms of the Massachusetts-Rhode Island Federal Milk Marketing Order.

In the National Milk Producers Federation we have supported the school lunch program from its inception. We have viewed it both as a market for dairy products and as a nutrition program for children and one that would instill good eating habits at a critical age. During the greater period of time that this program has been in operation, and particularly since 1953, there has been ample butter so that school children have been provided with butter in their lunches.

As the Agricultural Act of 1949 is presently written, however, there is danger that butter may be denied children, even though CCC has butter on hand and is selling it in foreign markets at reduced prices, or even for soft currencies. This is because of a priority in the law which requires the Department of Agriculture to give preference in disposing of CCC stocks to sales in any form before making it available for feeding programs.

We feel that it is in the interest of the United States to give first preference to its children, and that this will provide greater lasting benefit to the United States than the present system of priorities. S. 1794 would make that change and no other in the price-support law. We recommend its passage.

Senator AIKEN. Let me ask Mr. Beal how much business his cooperative does in a year.

Mr. BEAL. About \$28 million, Senator Aiken.

Senator AIKEN. \$28 million. Is your organization enthusiastically supporting the base plan that is provided in either the House bill or the Senate bills?

Mr. BEAL. We would not consider it for adoption for our own marketing order, Senator.

Senator AIKEN. That is all.

The CHAIRMAN. Suppose we put in a provision that on all surplus milk that preference shall be given to American consumers.

Mr. BEAL. I think it would be an excellent idea, sir.

Mr. NORTON. We would be for that.

The CHAIRMAN. I would rather do that than encourage more production, because that is what this is going to result in, in my opinion.

Mr. BEAL. I think charity begins at home.

The CHAIRMAN. Any other statements?

STATEMENT OF EUGENE J. VANDENBORD, NATIONAL MILK PRODUCERS FEDERATION, DELANCEY, N.Y.

Mr. VANDENBORD. My name is Eugene J. Vandembord. I am a dairy farmer from Delancey, N.Y., and I am here today as vice president of the Dairymen's League Cooperative Association, a member of the National Milk Producers Federation.

Each day more than 9,000 members of my cooperative market their milk under the Nation's largest milk marketing order, New York-New Jersey, and thus, I feel qualified to talk about the very real problem of how to expand their marketing.

An amendment to section 8c(5) of the Agricultural Marketing Agreement Act of 1937, as amended, is recommended in order to provide authority for milk producers to support research, promotion, and advertising of milk and dairy products through uniform deductions by all producers under a marketing order. Similar authority is presently prescribed in section 8c(6)(I) of the act for commodities other than milk. This authority was added by Congress in 1954. There are 43 fruit, vegetable, and speciality crops marketing orders in effect at this time. Twenty-nine of these programs have incorporated into their marketing orders authority to engage in marketing research and development projects. Most of the new marketing orders issued since 1954 contain this authority, and it has been added to a number of the older programs by amendments.

Under the provisions of our proposed amendment, producers supplying any federally regulated milk market also would be permitted to raise funds by deduction from payments for milk to be used for similar purposes.

For a number of years dairy farmers have contributed to such programs by supporting the American Dairy Association and the Dairy Councils. Producers have made their contributions largely through individually authorized deductions from payments for milk or through their cooperative associations. The Department of Agriculture has cooperated in this effort by permitting deductions from payments for milk under Federal milk marketing orders. In some instances producers have been notified by positive letter and the deductions have been made in the absence of objection.

Where an objection was raised, no such deduction was made.

In other instances, a signed authorization from the producer has been used. In addition to these programs some States collect money from dairy farmers through the tax structure and make such funds available for research, promotion, and advertising of milk and dairy products.

The weaknesses of the present system are:

- (1) a part of the producers underwrite the cost of the program while all producers supplying a market share in the resultant benefits,
- (2) present methods of collecting funds are costly, and
- (3) the full potential of the program cannot be realized with the present limited funds.

It has been estimated that the present program of voluntary solicitation in the New York milkshed produces less than 40 percent of the amount that would be available if all producers contributed. To the extent that such funds are used to promote the procurement of money, they are largely wasted.

Nevertheless, great numbers of dairy farmers support the principle of financing the research, promotion, and advertising of milk and dairy products. They are convinced that the full potential of research, promotion, and advertising has not been realized.

In this day of competitive appeal to the public for consumer goods, they see a need to fully utilize all means of obtaining maximum consumer acceptance of milk and dairy products much the same as is done for products other than milk which are subject to the Marketing Agreement Act. Producers believe that there should be authority for provisions in marketing orders to make such programs marketwide, if approved by producers through referendum procedures in accordance with those established for the approval of marketing orders.

We propose that such act be amended to provide that upon the affirmative vote of the producers marketing milk under a Federal order, certain funds would be assessed on a per hundredweight basis for the purpose of financing programs to promote and advertise milk and its products.

Under the terms of such a proposed amendment, these funds would be turned over to an independent agency composed of producers and producers' cooperative representatives selected for the purpose of administering the funds in such a manner as to fully utilize the techniques and services necessary to a successful research, promotion, and advertising program. The amendment to the order under which the program is authorized would establish the method of formation and operation of such an agency, as well as the standards and qualifications of the persons and organizations employed to carry on the program, and I might add here that there is no indication in our area that anyone else except the American Dairy Association or the dairy councils would be doing this work.

Under the terms of the Agricultural Marketing Agreement Act, the Federal milk market orders have brought stability to the dairy industry through the classification of milk and payments thereunder to producers. These programs have created a climate of equal participation by all producers under terms and conditions arrived at through the democratic process of public hearings and voting upon the regulatory aspects of the authorized programs.

Marketing stability, however, does not necessarily assure the development of full market potential. It is a natural extension of the widely accepted Federal order procedure to include in enabling legislation the permissive authority for producers to adopt a means to share the cost of the full market development of their product.

Such legislation would seek to accomplish its purpose without disturbing either the established regulatory system or without interfering with the excellent progress already made in the field of milk research and promotion. In fact, the express and obvious purpose of the proposal is to make these efforts all the more successful through the use of additional funds to develop markets.

The provisions of a milk market order are permissive in that they can be freely adopted or rejected by the affected producers. The passage of such legislation similarly would leave the decision to support research, promotion and advertising of milk and dairy products to the discretion of producers supplying each individual Federal order market.

Through the order provision the money would be made available at little or no cost, which would leave maximum amounts for use in support of purposes for which it is deducted from milk payments.

Lastly, it would assure full marketwide participation and equity among producers in the same manner that a marketing order is equally applicable to all parties in a regulated market.

This program is ancillary and not necessarily an integral part of a marketing order. It should, therefore, be subject to a separate referendum, and defeat of its provision should not otherwise affect the marketing order. By the same token, producers through separate action should be able to terminate the research, promotion, and advertising provisions of an order separately without in any way affecting the other provisions of an order.

The amendment proposed will be of benefit to all dairy farmers and will not in any way add to Government costs.

A copy of the proposed amendment is attached.

The market served by the members of our cooperative association is the Nation's largest. Despite the fact, we have never had the kind of a research, promotion, and advertising program which this proposal would authorize. I believe that farmers would like to have the opportunity to install such a program. As a dairy farmer and an officer of a large dairy cooperative, I feel that the passage of this bill would serve well the interests of all dairymen.

(The amendment referred to follows:)

The Agricultural Marketing Agreement Act of 1937, as amended, is further amended by adding at the end of subsection 8c(5) the following new subparagraph:

"(H) Establishing or providing for the establishment of marketing research and development projects, and advertising (excluding brand advertising), sales promotion, educational, and other similar programs, designed to improve or promote the marketing and consumption of milk and its products, to be financed by producer deductions at a rate per hundredweight fixed in the order on all producer milk under the order. Such funds shall be paid to an agency organized by milk producers and producers' cooperative associations in such form and with such methods of operation as are specified in the order. Such agency may designate and employ persons and organizations engaged in such projects and programs who meet the standards and qualifications to be specified in the order. All funds collected under this subparagraph shall be separately accounted for and shall be used only for the purposes for which they were collected. Order provisions under this subparagraph shall not become effective in any marketing order unless separately approved by producers in the same manner provided for the approval of marketing orders and may be terminated separately whenever the Secretary makes a determination with respect to such provisions as is provided for the termination of an order in subsection 8c(16)(B). Disapproval or termination of such order provisions shall not be considered disapproval of the order or of other terms of the order."

The CHAIRMAN. Would your proposal be nationwide?

Mr. VANDENBORD. Under each marketing order.

The CHAIRMAN. In other words, if there would be a favorable vote in your area that would be it?

Mr. VANDENBORD. Yes, sir.

The CHAIRMAN. It would not apply to those who don't vote for that?

Mr. VANDENBORD. It would be applicable to all dairymen delivering milk under our order.

The CHAIRMAN. I understand.

Then after they voted favorably for the length of time it would be in force it would be on a nonvoluntary basis?

Mr. VANDENBORD. That is right, sir.

The CHAIRMAN. Any questions?

Thank you.

Who is next?

Mr. NORTON. Mr. Holtz, Dan Holtz.

Senator MONDALE. I wonder if I might introduce our next witness?

The CHAIRMAN. Surely.

Senator MONDALE. He is a distinguished leader in the dairy industry from the upper Midwest, and is president of our Land O'Lakes Creamery. I have known Mr. Holtz for some period now and during the period I was attorney general and since that time as a Senator, and I have been most impressed by his dedication to the best interests of the dairy farmers. He heads one of the great creamery cooperatives in our land.

The CHAIRMAN. You may proceed.

STATEMENT OF DAN HOLTZ, NATIONAL MILK PRODUCERS FEDERATION, MINNEAPOLIS, MINN.

Mr. HOLTZ. Gentlemen, you are both very kind. I hope you are both as kind at the end of my statement as at the start of it.

My name is Dan Holtz. I am president of Land O'Lakes Creameries, Inc., with headquarters at Minneapolis, Minn., and a dairy farmer.

Land O'Lakes Creameries, Inc., is a cooperative in the business, among other activities, of selling manufactured dairy products for dairy farmers in Minnesota, Wisconsin, North and South Dakota, and Illinois. Our membership is mainly dairy cooperatives, but in some instances the farmer-producer holds his membership directly in Land O'Lakes. This farmer membership in both categories, direct and through member cooperatives, amounts to several thousand farmers—perhaps 50,000 or more.

Today I thank you for the privilege of appearing before this committee as a proponent of a program to increase butter consumption in the commercial market, rather than have it accumulated by the Government. Our proposal is to reduce the market price to a point where it will all be consumed in the domestic market.

This is essentially the program used by the Government during World War II to encourage the production of butter, nonfat dry milk and cheese, but at the same time to control the cost of living. Payments were made to farmers through their manufacturing plants by the War Food Administration. The program was effective. Such a program, we believe, would prevent accumulation of surplus butter, reduce the cost of butter to consumers, and reduce the cost of storage and handling to the Government.

We are told repeatedly that dairymen should adjust production to fit the domestic market. We believe there is no evidence to support the notion of a surplus of milk or dairy products occasioned by farm production.

Perhaps the most revealing information in the statistics of the dairy industry over the past 10 years lies in the production of milk fat. Total milk production has been slightly increased. The fat content of milk, however, has declined. As a result production of total milk fat has declined.

Human population increases approximately 1.5 percent or more each year, but milk production is at nearly the same level each year.

Production per person gets smaller. The dairy industry is, therefore, taking steps to adjust production to fit the market. The problem is not production oriented. A solution to surplus must be found in terms of consumption.

(The table on milk production included in Mr. Holtz's statement is as follows:)

Milk production, milk fat in milk, and total milk fat production in the United States, 1954-64

Year	Total milk production (billion pounds)	Milk fat in milk (percent)	Total milk fat produced (million pounds)
1954.....	122.1	3.86	4,717
1955.....	122.9	3.84	4,726
1956.....	124.9	3.82	4,773
1957.....	124.6	3.81	4,744
1958.....	123.2	3.78	4,658
1959.....	122.0	3.76	4,588
1960.....	123.0	3.76	4,623
1961.....	125.4	3.75	4,709
1962.....	126.0	3.74	4,708
1963.....	125.0	3.71	4,642
1964.....	126.6	3.70	4,682

Source: Milk: Production, Disposition, and Income, U.S. Department of Agriculture, April 1965.

Mr. HOLTZ. We suggest no change in existing law. The 75 to 90 percent of parity price levels are working well and there should be no reduction in the 75-percent minimum.

The importance of butter to the dairy industry is revealed by the fact that 30 or more billion pounds of milk are used for making butter each year. This approximates 25 percent of all milk sold by dairy farmers. It is far too large a quantity to be successfully absorbed into the production of other dairy products.

Furthermore, some manufactured product, such as butter is a necessary byproduct for use of milk surpluses in fluid milk markets. The demand for butter, therefore, affects the price of all dairy products.

The source of the surplus is revealed by some data on production and consumption of milk per capita. Our market for milk and dairy products is people. Information from per capita consumption is unusually revealing.

The following table shows again the production of milk. It also shows production and consumption per capita for the past 10 years. Production per capita declined 85 pounds or more than 11 percent since 1955.

This is a very significant adjustment of production to fit the market.
(The table referred to follows:)

*Milk production, production per capita, use per capita, and surplus per person
in the United States*

Year	Milk pro- duction in United States	Milk pro- duction per person	Milk con- sumption per person	Surplus per person
	<i>Billion pounds</i>	<i>Pounds</i>	<i>Pounds</i>	<i>Pounds</i>
1947-49 average-----	115.2	789	742	47
1955-----	122.9	744	706	38
1956-----	124.9	742	702	40
1957-----	124.6	728	685	43
1958-----	123.2	708	680	28
1959-----	122.0	689	666	23
1960-----	123.0	680	651	29
1961-----	125.4	683	638	45
1962-----	126.0	675	638	37
1963-----	125.0	660	629	31
1964-----	126.6	659	627	32

Mr. HOLTZ. But during the same 10 years consumption per capita declined 79 pounds or 11.2 percent. The result is that the surplus was not abated. In 1964 the 32-pound-per-capita surplus exceeded that of the preceding year. I present these data to show that the problem is not one of production control. Per capita production has been reduced with no abatement of surpluses. Consumption must be stabilized before there is any real hope of balancing production with the requirement of the market.

What reasons do we have for believing that lower butter prices will stabilize consumption? There are several.

First, we note that in States such as North Dakota with a 20-cent-per-pound tax on yellow margarine and in Minnesota where the tax is only 10 cents per pound, the tax collection indicates lower per capita consumption of margarine than for those States where margarine is untaxed. The price difference between butter and margarine is smaller when margarine is taxed. It seems that the smaller retail price difference stimulates the use of butter.

In Canada where prices were similar to those in the United States it became necessary to raise the support price for butter to maintain milk production. At the higher prices for butter, however, consumer demand was being lost to oleomargarine, thus creating a butter surplus. A payment of 12 cents per pound was made to butter manufacturing plants. This payment made it possible for butter manufacturers to sell butter to retailers at a reduction in price of 12 cents per pound. The retail price difference between butter and margarine was narrowed. Consumer response was encouraging. Per capita butter consumption which had declined to 15.8 pounds by 1961 recovered to 19 pounds by 1963.

In the United States, with about 192 million people, 2 pounds of butter consumption per capita would amount to 390 million pounds. This is more than our current surplus of butter. Although it might take 2 or 3 years to get the sales of butter up to a satisfactory level—perhaps about 8 pounds per capita total—it seems quite likely that a payment such as that used in Canada would be adequate after such a program had become established.

There has been much discussion of the need to extend such a program to products other than butter. We believe, as did the Canadians, that it can be managed for butter alone.

The history of competition in the United States is shown in the table and figures following. These data show that the use of butter declines as the retail price differentials between margarine and butter are widened.

In 1950, 1951, and again in 1959 and 1960, we have particularly good evidence that the per capita consumption of butter declined when the retail price difference was increased. These data also show that per capita consumption of butter advanced in 1954 and 1955 when the retail price difference declined.

The data also show that with a retail price difference less than 45 cents per pound between 1954 and 1958, butter consumption was maintained at more than 8 pounds per capita. When the retail price differentials were widened to 47 cents or more, as from 1959 to 1964, per capita consumption of butter generally declined.

We believe that with a payment making it possible to sell butter on a more favorable competitive basis, butter will be absorbed in the market and not into Government storage.

A seasonal variation in price amounting to several cents per pound between June and October was common to butter in the years before World War II. We believe that similar price variation seasonally, if carefully managed by the Secretary would not be so damaging as some would have us believe. We also look forward to higher prices seasonally as a source of higher prices to farmers.

We believe the Secretary should continue his present purchase program at the support price. We also believe, much as we want higher prices, that the level of price support between 75 and 90 percent of parity should continue to be the responsibility of the Secretary. We believe that we are suggesting a flexible price program which will sharply reduce or eliminate the need for Government purchases by eliminating the surpluses.

Attached is a copy of a proposed bill which we believe would accomplish these results without any other change in existing legislation.

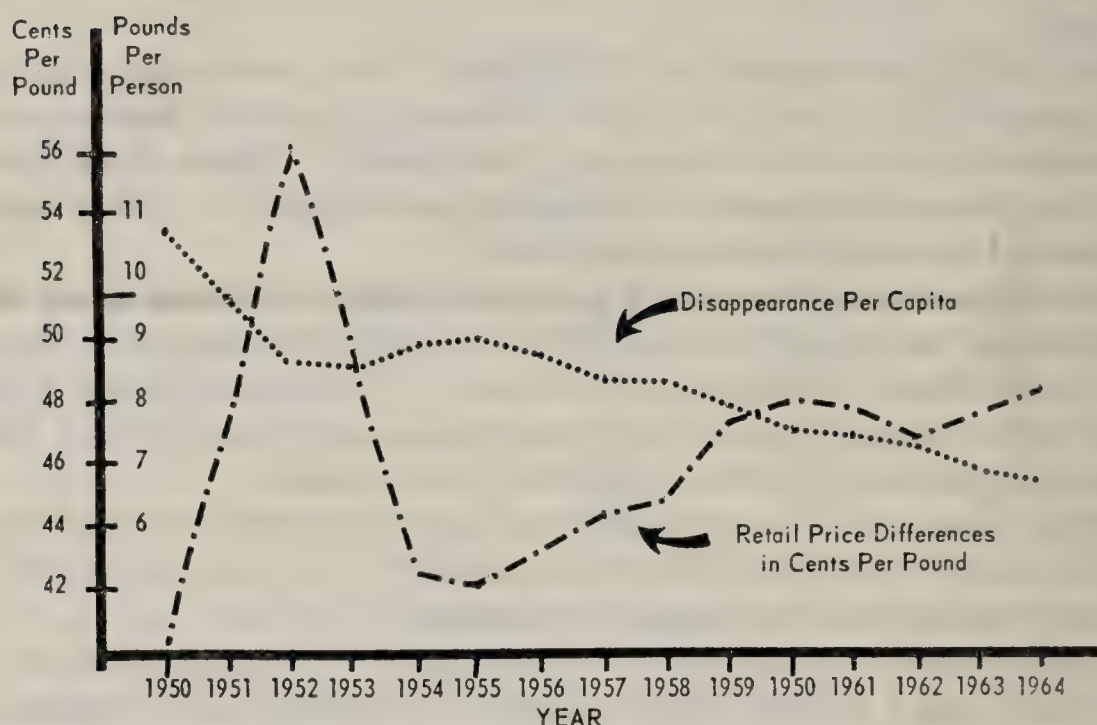
Thank you.

(The attachments referred to follow:)

Butter and margarine: Retail prices and per capita disappearance

	Retail prices (in cents per pound)			Disappearance per capita (in pounds)	
	Butter	Oleo-margarine	Retail price difference	Butter	Oleo-margarine
Year:					
1950.....	72.9	32.7	40.2	10.7	6.1
1951.....	81.9	34.7	47.2	9.6	6.6
1952.....	85.5	29.4	56.1	8.6	7.9
1953.....	79.0	29.4	49.6	8.5	8.1
1954.....	72.4	29.9	42.5	8.9	8.5
1955.....	70.9	28.9	42.0	9.0	8.2
1956.....	72.1	28.9	43.2	8.7	8.2
1957.....	74.3	29.9	44.4	8.3	8.6
1958.....	74.2	29.4	44.8	8.3	9.0
1959.....	75.3	28.0	47.3	7.9	9.2
1960.....	74.9	26.9	48.0	7.5	9.4
1961.....	76.3	28.6	47.7	7.4	9.4
1962.....	75.2	28.4	46.8	7.3	9.3
1963.....	75.0	27.5	47.5	6.9	9.6
1964.....	74.4	26.1	48.3	6.7	9.7

Butter and Margarine - Retail Price Differences
and Per Capita Disappearance of Butter



NATIONAL MILK PRODUCERS FEDERATION, WASHINGTON, D.C.

A BILL To provide for payments to processors of butter

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever the Secretary of Agriculture finds that purchases of butter for price support purposes will exceed for any marketing year the volume to be utilized for domestic relief distribution and the school lunch program, he shall encourage the movement of butter into commercial domestic consumption by effecting a reduction in prices to consumers by payments made at the processing level on butterfat used in butter. The Secretary also may make such payments on butterfat used in the manufacture of dairy products for which butter can be used, or he may exclude from such payments butter used in the manufacture of other dairy products, whichever the Secretary determines will best effectuate the program.

SEC. 2. The Secretary may prescribe such regulations as he deems appropriate to carry out the provisions of this Act.

SEC. 3. There is hereby authorized to be appropriated such sums as may be necessary to carry out the purposes of this Act.

The CHAIRMAN. Thank you very much.

Any questions?

If not——

Senator MONDALE. I would like to make one observation, Mr. Chairman.

Mr. Holtz completed a tour of much of the world a year or so ago exploring the possibility of dairy products for cash sales, and delivered a speech on that. It is one of the best things I have read, and I hope when we get into hearings at some point on potential cash markets for American agricultural products that we could have Mr. Holtz back to give us his views in this area.

The CHAIRMAN. Very well.

Mr. NORTON. Mr. Chairman, just one short statement and I am through and you can go.

There seems——

The CHAIRMAN. We have to go vote from—in a minute.

Mr. NORTON. There seems to be a question of costs here involved in our whole farm program and I would like to say that the suggestions we have made here today would be acceptable along with these four suggestions I make.

The basic items of cost that were involved are (1) the support program; (2) the school lunch program; (3) the special milk program; and (4) Public Law 480.

Now, I would like to suggest here as food for thought, I don't know that my organization would buy this idea, but it has come to me in listening to the testimony today, that it might be worthwhile to suggest that rather than become involved in a particular cost for total purchases of a commodity that we become involved in purchasing only a percentage of each commodity to be bought by Commodity Credit Corporation. This will certainly pull the costs down.

In other words, in order to treat all agriculture equally, not more than, say, 5 percent of any commodity produced would be bought by the Government at x dollars—a price established by the Secretary.

If these programs are too costly and urban people feel they obtain no benefit from them, then maybe we should do away with the school lunch and the school milk program, and do away with Public Law 480 if we are really serious about eliminating all costs.

The CHAIRMAN. Well, you are the biggest beneficiary of the school milk program.

Mr. NORTON. We are the only one.

The CHAIRMAN. And then you have a program to buy for cash.

Mr. NORTON. All I am saying is if these are detriments to the public of the United States, let's talk about doing away with them.

The CHAIRMAN. Well——

Mr. NORTON. This will cut the costs down.

The CHAIRMAN. I suppose it would be rather difficult to get Congressmen and Senators to vote for that. I guess that is why you are suggesting it.

But the point I have made throughout has been that all of these programs are going to go through the window unless you find some way to cut to the bone.

Mr. NORTON. Senator, I am dead serious about this percentage idea I am talking about here. It may be that this committee should determine that only a certain percentage of a commodity is all that the Commodity Credit Corporation would buy.

The CHAIRMAN. What would you base your percentage on, the value, or what?

Mr. NORTON. You could base it on the value of the commodity produced as compared to its total contribution to gross farm income, or some other such factor.

The CHAIRMAN. The whole program would have to be changed,

Mr. NORTON. Yes, correct, no question about it.

But if we are talking about reducing costs.

The CHAIRMAN. Yes; that is right.

Mr. NORTON. And this one I am dead serious about.

The CHAIRMAN. Yes; I know.

I believe you are serious about it.

But, as I said, each commodity, of course, would look to see how it will come out.

Mr. NORTON. I don't think there is any question about that.

The CHAIRMAN. And, of course, you would never get a program like that through; you know that.

Mr. NORTON. No, no, I don't know it, either. Do some of the programs—would they rather have production controls or would they rather have all types of controls out of the way and their only control is a limited percentage that they can sell to the Government?

The CHAIRMAN. If there would be a way to control the production of milk, which I don't believe there would be, milk and corn and other feed grains are the only programs that we are dealing with here in which there never have been marketing penalties.

Mr. NORTON. Well, you have an acreage restriction on wheat and corn, don't you?

The CHAIRMAN. That is right.

But you can't apply that, you can't apply that same formula to the production of milk.

Mr. NORTON. That is why I am suggesting the percentage idea.

The CHAIRMAN. And let everybody produce what they want?

Mr. NORTON. Yes.

The CHAIRMAN. I don't think we would get anywhere with a program of that kind.

Mr. NORTON. I am just throwing it out here for grabs.

The CHAIRMAN. I understand.

But the thing is with the milk program as well as the corn and other feed programs, they are unlike cotton, they are unlike rice, they are unlike wheat in that they can produce what they please. There is no limitation in their production, and yet they have a price support ranging from 75 to 90 percent, and as to most other commodities, such as cotton and rice and wheat we have it from 65 to 90 percent.

Mr. NORTON. That hasn't reduced the costs, though.

The CHAIRMAN. No, it hasn't, but at the same time, the dairy people as well as the corn and other feed grain producers are set aside. They have got the highest price support with no controls, whereas the others have acreage controls and a lower support price.

Mr. NORTON. I think your original statement that some of these crops are different is probably true. There are many different quirks in each commodity. I don't know anything about the other commodities, but this was just a thought that I had in listening to you this morning on the costs of the other programs and that this might be a solution.

The CHAIRMAN. Well, what bothers me is that if these excessive costs are kept on, and if the farmer is more and more dependent on the Government for part of his income, there will come a time when Congress may refuse to go along. You see, we have in the House of Representatives now——

Mr. NORTON. I know.

The CHAIRMAN (continuing). A majority of the Congressmen who represent the city people. They don't represent the farmers anymore.

Mr. NORTON. That is right. But so many of these programs such as the special milk program, the school lunch program, Public Law 480,

and so forth, are as much or more benefit to city dwellers as they are to farmers. The costs of some of these programs should be marked up to the consumers, not to the farmers.

The CHAIRMAN. And any time that the cost of a commodity goes up and it makes the price of the cost of living rise, you have got a lot of repercussions from the city dwellers, and I have been noticing that right along.

Mr. NORTON. We understand that because we don't get any repercussion when the city dwellers raise the cost of hired help to the farmer, there is hardly any repercussion of that at all. That happens to be good.

The CHAIRMAN. That is why I am for the farmer, I want to help him all I can just because the farmer doesn't start from the same base as does labor and those who are protected by tariffs, you see.

Mr. NORTON. Yes. That is my feeling too. I might add, too, Mr. Chairman, you brought up this matter of storage costs.

I know how the—how it operated when I was in the Department. We did add the storage costs into our resale price.

The CHAIRMAN. All of it?

Mr. NORTON. Yes.

The CHAIRMAN. At one time. But here recently they have changed that and I want to find out why.

Mr. NORTON. I don't know why. I don't know what they do now but we used to add in the storage costs.

The CHAIRMAN. But now I am told it is just 1 year's storage costs is added.

Mr. NORTON. It may be peculiar just to dairy products, I don't know.

The CHAIRMAN. No, no, it is peculiar to all of it, I am informed. But I will find that out and those are some of the questions I want to propound to Mr. Freeman when he comes before us.

All right. If that is all.

Mr. NORTON. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Reed.

STATEMENT OF OTIE M. REED, EXECUTIVE DIRECTOR, NATIONAL CREAMERIES ASSOCIATION

Mr. REED. Mr. Chairman and members of the committee, thank you for the opportunity of appearing here this afternoon.

My name is Otie M. Reed, and I am executive director of the National Creameries Association with offices at 1107 19th Street NW., Washington, D.C. National Creameries Association is composed of dairy plants almost all of which are cooperatively owned and operated, and regional cooperative dairy sales associations, located in the States of Wisconsin, Minnesota, Iowa, Nebraska, Kansas, North Dakota, South Dakota, and Oregon.

We have supported the dairy price support program for a number of years and wish to urge its continuation. The testimony of other witnesses has shown that dairy farmers have not been expanding their production materially and, as a matter of fact, in the last 10 years the total milkfat production has actually been reduced. We agree with the

conclusion that our problem is basically consumption oriented rather than production oriented.

While it is true that the dairy price support program has involved Government in considerable expense, the fact remains that this program has resulted in a much higher level of dairy farm income than would otherwise have been the case, and in addition has made it possible to use our dairy surpluses for relief distribution, large volumes in food-for-peace programs, and, in the last year or so, to export considerable dairy products on a subsidized basis.

In considering the gains to dairy farmers because of the price support program, it must be borne in mind that the program also has a great deal of influence on the income of fluid milk producers. This arises because in most markets the price which producers receive for that portion of their milk used in fluid milk is directly related to the price of manufacturing milk, rising and falling as these prices rise and fall.

Even under the price support program, we are losing large numbers of farmers who are leaving the farm and turning to other pursuits, and there has been also a large decline in the number of plants. This has been mainly the result of the development of improved technologies in plant operation and the combining of plants to gain the efficiencies and lower costs appropriate to large volume operations.

For the last several years the National Creameries Association, National Milk Producers Federation, and the American Butter Institute have urged the adoption of a program under which (a) butter would be allowed to seek its level in the marketplace, and (b) the difference in price and the price support level announced by the Secretary would be made up by payments to producers. The program we have recommended is similar to that contained in the Nelson bill, S. 1563, with the exception that we strongly urge Congress, if it adopts such program, to authorize only payments through plants to avoid high administrative costs and to conduct the program in a manner similar to the way wartime subsidies were paid during World War II.

We support and endorse the statement just given by Mr. Holtz representing Land O'Lakes and the National Milk Producers Federation, and a witness of the American Butter Institute who will appear in support of the consumption and incentive program for butter.

There are proposals before the Congress that the Secretary of Agriculture be authorized to purchase dairy products in the open market, if necessary, to meet Government supply programs. We endorse this proposal.

We also endorse and support the national milk sanitation bill which is designed to eliminate unnecessary trade barriers based on arbitrary and unreasonable sanitation regulations; but inasmuch as this bill is not before this committee for consideration, I will discuss it no further here.

A number of so-called class I base bills are now before the Congress and hearings have been held on them in the Dairy Subcommittee of the House Committee on Agriculture.

In general, the Proxmire bill, passed by the Senate last year, and the bills currently before the House Committee on Agriculture, would permit the establishment of fixed bases under Federal fluid milk orders.

Dairy farmers supplying milk to the market would be allocated their proportionate share of the class I—fluid milk—sales in such markets based on their production record over an extended period of time—over a year or more.

We have objected to these bills, and continue to do so, for the following reasons:

1. These bills, in our opinion, represent a backward step in the progress of milk marketing and move contrawise to the trends in technology and transportation improvements now contributing to an ever greater degree of mobility in fluid milk marketing.

2. It is our judgment that the bills, if enacted into law, will be used to impose practically insurmountable barriers to the entry of new producers into fluid milk markets and to the movement of milk between regulated markets.

3. The bills now under consideration all permit the transfer of bases among producers. While this may appear reasonable, it is to be recognized that these bases will become valuable since they will represent a vested right, so to speak, in the markets. Over a period of time the purchase and sale of bases will inevitably result in higher cost of production as the value of bases is capitalized into the farm capital structure.

4. Inasmuch as, in our judgment, these base plans cannot help but be restrictive to the entry of milk into fluid milk markets and the movement of milk between markets, they will lay the groundwork for the negotiation of large premiums above the class I price that normally would be established under the price criteria of the act.

These bills, if enacted into law, therefore, will contribute over a period of years, to much higher costs of milk to consumers and reduced consumption because (a) production costs would be increased by the capitalization of the value of the bases and (b) large premiums can be negotiated since the class I price structure would be sheltered from competition from either unregulated milk or other regulated markets at lower price levels.

5. We do not believe these bills will control production in fluid milk markets, and assuredly they will not be used to spin off or reduce current surpluses.

The reason we think these bills will not control production is that in all probability the price of manufacturing milk that would be received for milk delivered in excess of bases probably is above the marginal costs of production of fluid milk. A program of this sort would begin to clamp down on current production levels only as the price received for excess milk is below its marginal cost of production. And indications are that this is not the case.

6. Proponents apparently believe that producers will not produce milk in excess of fluid milk needs if they do not have to operate under the blend price structure currently prevailing. This appears quite plausible, but in fact producers expand their production because the blended prices they receive are too high or, let's say, are high enough for them to produce milk at the blended price. Following the chain of reasoning through, blended prices are high for the reason that the class I prices established have been maintained at such high levels as to raise blended prices to levels which warrant many individual producers to increase their production.

7. Apparently some language has been included in one of the bills now under consideration by the House, H.R. 8674, in an effort to make it clear that new producers are to be permitted to enter fluid milk markets. The language reads:

* * * Any increase in class I base resulting from enlarged or increased consumption and any producer class I bases forfeited or surrendered shall first be made available to new producers and to the alleviation of hardship and inequity among producers.

However, this language clearly indicates that new producers would not be given a class I base unless (a) fluid milk consumption increased, and (b) existing bases were forfeited or surrendered.

I have spent enough time heretofore to indicate that price structures, under the operation of these class I base plans, in time will be considerably higher than at present, and, therefore, there will be a strong tendency to decrease the consumption of fluid milk in regulated markets.

Further, the attachment of value to bases will make it much more difficult for the producers to enter the fluid milk business because of higher costs.

8. The Poage bill, H.R. 8674, also carries language which appears to be designed to authorize the issuance of a manufacturing milk order. In our opinion, this could be accomplished under the Agricultural Marketing Agreement Act of 1937 as it now stands.

Presumably the idea would be that, since Federal fluid milk orders have had at least some success in maintaining and increasing income to producers of fluid milk, the imposition of an order classifying the prices of manufacturing milk entering different end product uses would make it possible to maintain and perhaps enhance income to manufacturing milk producers.

The idea is intriguing. It has been studied and discussed from time to time within the dairy industry. I have just completed for our membership an analysis of the possibilities of developing a manufacturing milk order and how this would affect returns to producers. As soon as the paper is printed, I intend to send copies to you and to the House Committee on Agriculture for whatever use you care to make of it.

It is indeed difficult to comment precisely in regard to a manufacturing milk order because we have no definite order prepared by proponents to analyze, but it is possible to make some general observations, based on our study, as follows:

(1) It has been possible, in the issuance of fluid milk marketing orders, to limit their application to specific fluid milk markets because fluid milk markets are essentially local in character due to many factors that need not be stressed here.

(2) Manufacturing milk products, due to their storability and their ease and relative cheapness of transportation throughout the country, have tended to be sold on markets that are national in scope.

It seems to us quite clear that a manufacturing order would have to cover the entire United States, including surplus milk used in manufactured dairy products in Federal order markets.

(3) Some idea of the scope of a manufacturing milk order, assuming, as most assuredly appears to be the case, that it would have to be nationwide in scope, is shown by the following figures:

(a) It would cover approximately 62 billion pounds of milk processed into manufactured dairy products, based on 1963 statistics.

(b) Production of manufactured dairy products, although heavy in certain large production States, is in fact scattered throughout the United States. Butter is produced in 43 States; cheese in 30; evaporated milk in 26; bulk unsweetened condensed milk in 26; 18 States produce sweetened condensed milk; 18 States produce dry whole milk; all 50 States produce ice cream and other frozen products.

(4) The utilization of milk used in manufactured dairy products is split almost evenly between butter and the remaining products. In 1963, 48.6 percent of the milk manufactured went into butter; 22.5 percent into cheese of all types; 5.8 percent into evaporated milk; 1.7 percent into condensed milk; 1 percent into dry whole milk; 18 percent into ice cream and other frozen dairy products; 2.3 percent into "other" manufactured dairy products.

As far as the number of plants that would be covered is concerned, USDA publishes annually figures showing the number of plants manufacturing dairy products. In 1963, 1,321 plants manufactured butter; 1,282 manufactured cheese, including American; 1,086, creamed cottage cheese; 405, nonfat dry milk; 48, dry whole milk; 2,512, ice cream plus other frozen desserts but excluding counter freezers; 364, condensed or evaporated milk.

These figures indicate that at least 6,000 plants would have to be covered under a manufacturing milk order.

(6) It is clear that the fluid milk order program has depended for its success upon the existence of the manufactured dairy products market to which milk in excess of fluid milk sales could be diverted.

It would have been practically impossible to classify and price milk according to use in the absence of such market. With such a "take-out" (surplus) market existing, it is possible to price milk entering different uses at different prices; and if the fluid milk market does not clear all supplies at the prices established, the excess is priced at manufacturing milk prices.

Considering only the operation of a manufacturing milk order, that is, divorced from all other types of Government programs, it seems quite clear that there does not exist what we might call a takeout class or use in which milk which would not be sold in commercial manufactured dairy products channels at classified prices could be diverted for sale. Theoretically, of course, it would be possible to develop a very low-priced class such as the use of fat in industrial products of one kind or another, the use of nonfat for animal feed, or even a low-priced class for export markets. But within our domestic dairy economy, at the present time, no such takeout class exists if we exclude Government programs for purchase and disposition of the surplus that would not be used at market prices that prevail.

In the absence of a takeout class for the milk that would not enter commercial channels at prevailing prices, such as a Government-supported operation, it would be necessary to develop a class price structure in such fashion that the market would absorb all supplies. It is theoretically possible to establish a price classification based on end use of product with certain products priced at higher prices and some category of products at low enough price to utilize all milk that would not enter other class use.

Presumably then, an order could be written establishing a series of prices for milk entering all dairy products. The lowest price class no doubt would have to be butter and it would have to be priced low enough for all butter to enter the commercial market. This means that the price of butter would have to be sufficiently low to encourage the utilization of the current surplus of 332 million pounds—basis 1964 figures—plus the volume by which the consumption of other manufactured dairy products was decreased by the higher classification prices as specified in the order.

As an example, if we were to strive for an average price of 75 percent of parity to producers for all milk manufactured, all dairy products other than butter would have to be priced sufficiently high as to offset the extremely low price that would have to be charged for milk entering butter in order for the market to clear and the manufacturing milk order to be self-sustained.

Under such circumstances and with utilization about equally divided between butter and other manufactured products, there would be practically no chance for increased prices to producers on the average, because, with manufactured dairy products presumably about the same level of demand elasticity, reductions in consumption of the higher priced products would be about equal to the increase that would be forced into the butter class. Added to this problem, of course, is the cost of administration, and quite different pricing structures or price levels between different sections of the country, different States, and even between plants in the same State.

(7) Inasmuch as it was shown above that dairy manufacturing plants tend to be highly specialized, a nationwide equalization pool undoubtedly would have to be operated. Otherwise, plants producing milk classified at low prices would pay their producers lower prices than plants which produce milk classified at higher prices. The same techniques of equalization accounts between handlers and the like that are employed in Federal milk order equalization pools would have to be used and would have to cover all of the plants included in the order, which, as we noted heretofore, would be about 6,000 plants.

(8) It might be possible to develop a manufacturing milk order and couple it with a Government-price-support program or export subsidy program, or both, in which circumstances the estimates of gains theoretically possible under such system would be different than would be the case of a manufacturing milk order operating solely on its own.

But it is to be noted that it is not necessary to issue a manufacturing milk order merely to have an export subsidy program or food-for-peace program and relief distribution on program, or a combination of these. We already have them. That costs of operation of the Government program would be reduced under such circumstances is not at all clear and, as a matter of fact, is open to serious question.

(9) As stated heretofore, in our study we have not been able to find any merit in the issuance of a manufacturing milk order, insofar as we have been able to visualize the content of such an order. We think a manufacturing milk order which can stand on its own feet, in the absence of Government financial support, would merely result in a weighted average price to producers closely approximate to what

would prevail in the absence of the current Government-price-support program.

In particular, we do not think a manufacturing milk order can be used as a substitute for the Government-price-support program and still maintain returns and income to producers.

(10) We wish to stress, however, that we remain openminded in this matter. If proponents of a manufacturing milk order can devise one which will result in increased returns to producers, and by analysis show this to be the case, then we would give it our most earnest consideration. But short of tying the program in with Government supports, we are doubtful it would be possible to show any real gains to producers, although certainly we remain openminded about it even though here I have expressed our doubts.

(11) We feel, however, that if the Agricultural Marketing Agreement Act is amended to authorize the so-called class 1 base programs, efforts would be made to institute a manufacturing milk order with fixed bases. No doubt this could be tied in with payments to producers for reducing their production to base or at least not extending their production. This might be something that the Government would desire to do since it might be possible to save some money by paying for milk not to be produced rather than purchase it in product form after production. Such a program, however, probably would require the amendment of the Agricultural Act of 1949, as amended, so as properly to correlate the two programs.

Irrespective of this, the administration has tried on several occasions to have the Congress pass mandatory production control legislation for dairy farmers and from time to time bills have been introduced providing for so-called voluntary controls involving payments to producers for reduction or for holding down production.

So far as we are advised and to our knowledge, dairy producers do not desire production control and will not support it although, of course, if the Congress were to cancel the price support law, they might be driven to such action because of reduced income.

Thank you for your courtesy. That concludes my statement, Mr. Chairman.

The CHAIRMAN. All right, Mr. Reed. As I understand your statement, you want to leave the law as it is?

Mr. REED. Yes, sir.

The CHAIRMAN. All right. I understand you wish to file a supplementary statement, and without objection it will appear at this point.

(The statement follows:)

SUPPLEMENTARY STATEMENT OF OTIE M. REED, EXECUTIVE DIRECTOR, NATIONAL CREAMERIES ASSOCIATION

It is quite clear from the testimony presented to the Senate Committee on Agriculture on June 28, 1965, by both proponents and opponents of the so-called class 1 base bills such as would be authorized by S. 399 and H.R. 8674, that two directly opposed judgments were indicated by witnesses as to the effect of these bills if enacted into law. Objection to the bills, such as was carried in my testimony before the committee on June 28, covers two major points of conflict, these being:

1. The bills, if enacted into law, would provide the mechanism for fixed bases in Federal milk orders which would markedly restrict the entry of new producers into fluid-milk markets and the movement of milk between regulated markets, thus acting as almost insurmountable barriers in the movement of, and

trade in, milk from area to area and from market to market, and, in fact, would grant a monopoly of the market to local producers.

2. Inevitably, under the quota scheme which would be authorized by these bills, fluid milk (class I) prices in Federal orders would be increased—in time quite significantly. This would come about because of (a) increased cost of production due to the capitalization of the value of bases in the farm capital structure, and (b) increased prices either by direct action under the order or by negotiation of premiums—which latter would be greatly expedited because the quota programs authorized by the bills under review would restrict entry of milk into the markets and thus shelter the producers therein from the competition of milk supplies from other sources.

Proponents of these measures claim they are not intended to limit the entry of milk into fluid milk markets on the part of new producers or the movement of milk between regulated markets. Thus, their attitude in respect to the market-restrictive nature of these bills is directly opposed to that summarized in my testimony.

Proponents stated, under cross examination, that the legislation is not predicated on increasing class I prices.

Proponents also stated, in answers to questions propounded by Senators, that they did not object to an amendment to the proposed bill setting forth clearly that the bills were not designed to restrict the entry of milk into markets nor the movement of milk between regulated markets and thus contravene section 8c(5)(G) of the Agricultural Marketing Agreement Act of 1937.

In view of the foregoing, it would seem reasonable for the Senate Committee on Agriculture to resolve this controversy and this difference in judgment between proponents and opponents as to the effect of the bills, by inserting amendments into the bills which, on the one hand, would insure opponents of the bills that cognizance was taken of their objections by appropriate amendment, and on the other hand take the statements of proponents at face value that they would accept amendments designed to remove the restrictive nature of the bills as my testimony.

Accordingly, it is recommended that, if the Senate Committee on Agriculture deems it necessary that a class I base bill of some nature be passed, it be specifically provided that the issuance of class I base quota programs would not in any way or in any manner amend, modify, or affect the applicability of section 8c(5)(G) with respect to any order issued for milk and dairy products. We understand that Senator Mondale is in the process of developing such an amendment which we would wholeheartedly support under the circumstance that the Senate considers it must pass such legislation.

We would further recommend that cognizance be taken of proponents' statements that the legislation is not predicated on increasing class I prices. It is our fear that such class I prices would be markedly increased due to the negotiation of premiums in a situation where local markets would be sheltered and in fact monopolized for local producers.

Accordingly, we recommend that the committee provide that, in the event class I prices in any fluid milk order exceed those established by the U.S. Department of Agriculture under section 18 of the act, it would be incumbent upon the Secretary to cancel immediately any class I base program in effect under such an order.

In view of the fact that the effect of such legislation as class I bills is a matter of judgment, we suggest to the committee that it also would be quite wise to provide an expiration date covering the amendments to the act of 1937 which would authorize class I base programs.

Thus, if the Senate Committee on Agriculture would establish an expiration date for these particular amendments to the Agricultural Marketing Agreement Act of 1937, so that they would automatically terminate at the end of 2 or 3 years, all of us would have an opportunity to observe the manner in which class I fixed-base programs operate under the legislation on the basis of experience with the actual operation of such provisions as administered.

If, then, it were found that the bills did not restrict the movement of milk or cause large increases in class I prices, as we believe they will, it would be possible for the Congress to reenact the legislation, or to permit it to lapse on the basis of actual experience.

The CHAIRMAN. Mr. Gaumnitz.

STATEMENT OF E. W. GAUMNITZ, EXECUTIVE SECRETARY, AMERICAN BUTTER INSTITUTE AND THE NATIONAL CHEESE INSTITUTE, CHICAGO, ILL.

Mr. GAUMNITZ. Mr. Chairman, in view of the time of day, I think I will merely make some comments with reference to my testimony and ask that the full statement be inserted in the record.

The CHAIRMAN. You may proceed.

Mr. GAUMNITZ. If that is agreeable.

I am appearing on behalf of the American Butter Institute, and also on behalf of the National Cheese Institute, Inc. Both of these are primarily manufacturers and handlers of butter and cheese. Both organizations include cooperative operators as well as corporate or individually owned organizations.

I have heard the testimony of Mr. Holtz and Mr. Reed with reference to the butter consumption incentive type of program. The American Butter Institute endorses that general type of program. We would like to support it.

Very quickly, we believe that it will reduce Government purchases. We think that it will increase consumption in the United States, and we call your attention to the fact that butter, as has been pointed out, is the product in the whole dairy field for which the demand is elastic and, therefore, this is the place when normally the balancing takes place.

We think that butter is now in a good position within the United States and it needs to be improved. This is one way of doing it. It will serve to support the other programs and, particularly, the fluid milk program which has been discussed here at length today.

The second general legislative matter to which my brief is addressed is that with reference to an extension of the Marketing Agreement Act of 1937 to manufacturing milk, and particularly if such an extension is coupled with the introduction of fixed-producer bases in the Marketing Agreement Act, both organizations would oppose that type of amendment.

In the first place, the Marketing Agreement Act, as I understand it, and I worked in the Department of Agriculture about 12 to 14 years, and my work was in conjunction with the Federal order program, we had always interpreted that act as referring to all milk, not only milk used for fluid purposes.

So, therefore, we questioned——

The CHAIRMAN. You mean it was administered in that light.

Mr. GAUMNITZ. That is right.

The CHAIRMAN. But that is not what Congress intended.

Mr. GAUMNITZ. Well, I assume Congress did intend that.

The CHAIRMAN. Maybe I misunderstood you.

Mr. GAUMNITZ. We had always assumed that it did.

The CHAIRMAN. Yes. But as I recall it, the idea of the original act which authorized milk marketing orders was to compensate farmers who produced milk under sanitary conditions for fluid use at a fair price fixed by the Department at a minimum rate, and if there was a surplus, that would bring a lower price. A reasonable amount over and above the fluid requirements was contemplated. But today, the

way I understand it, the operation of the blend price in some areas has resulted in the production of milk for direct consumption and for the making of cheese and other products, milk products, being about 50-50.

Mr. GAUMNITZ. That is correct.

The CHAIRMAN. In Chicago you have got, as I recall the figures, 39-percent direct consumption, and the rest of it goes into cheese and butter.

Mr. GAUMNITZ. I would make only about two comments with reference to your statement, Mr. Chairman. First, I think the act of 1937 was drawn more in the light of its possible application to fluid milk markets.

You will recall that the original act, the Marketing Agreement Act, was part of the Agricultural Adjustment Act of 1933, but it was adopted as a separate piece of legislation in 1937. It stemmed, however, originally from the general act you referred to.

The CHAIRMAN. I was here when it was passed. I have been here since 1937, and all of your laws——

Mr. GAUMNITZ. Yes, and we have also so interpreted it.

It is a little difficult to take on the manufacturing deal at this time because there is no proposal, there has been no program, which has been outlined which would require some such amendment, as far as we can see; and it is a little difficult, therefore, to pin down or to find out what is in mind, and I have not heard any of the proponents of this proposed amendment spell out what they are thinking.

About the only reference that I know of is in the advisory committee to the Department of Agriculture of last year, and that primarily would amount to an addendum to the report. But as far as I know it has never had any particular analysis.

As a matter of fact, in years gone by we spent a lot of time attempting to develop a marketing agreement that would pertain to particular manufacturing milk products, and we never were able to work out one which we thought would be productive of either increased income to producers or that would serve any really useful purpose, and the primary reason goes to the thing which Mr. Reed pointed out, it differs from fluid milk markets in one essential manner.

In a fluid milk market, it is possible to have a class I price which is, in my language, artificially high so it does return more to producers. It can do that by and because the demand for fluid milk is relatively inelastic.

Then there is a surplus. Anything in excess of that quantity goes over to manufacturing products and is to the disadvantage of all other milk producers.

The CHAIRMAN. Well, this excess, though, has grown to such an extent——

Mr. GAUMNITZ. That is right.

The CHAIRMAN (continuing). That is has made your fluid milk program almost nil.

Mr. GAUMNITZ. Well, not in terms of class I prices, Mr. Chairman. Prices for even the blend price under fluid milk orders are well above the manufacturing milk prices.

The CHAIRMAN. Oh, yes, surely. But it encourages the production of a lot of milk that we do not need.

Mr. GAUMNITZ. That is what I am saying. That appears over in the manufacturing end of the business.

One suggestion, with reference to the so-called fixed producer bases under the milk orders, orders designed primarily for the fluid milk markets, is that if there is such an amendment that it be restricted to use in such markets and not extended to milk for manufacturing. I say this in light of the fact that we have yet to see a program in reference to manufacturing milk which seems to have any particular merit. That is about all I have to say.

The CHAIRMAN. Thank you, sir.

Mr. GAUMNITZ. Yes, sir.

(The complete statement of Mr. Gaumnitz follows:)

This statement is made on behalf of the American Butter Institute and the National Cheese Institute, Inc. The members of the American Butter Institute manufacture a material percentage of the butter manufactured in the United States and handle a large percentage of the butter handled in United States. The members of the National Cheese Institute produce over 50 percent of the cheese manufactured in the United States and handle over 75 percent of the cheese handled in the United States.

Appearance before this committee is for the purpose of presenting our views regarding (1) an amendment to the Agricultural Act of 1949, as amended, to provide for butter consumption incentives and (2) proposed legislation amending the Marketing Agreement Act of 1937 to make clear that such orders are applicable to manufacturing milk coupled with amendments proposed to the Marketing Agreement Act of 1937, as amended, to provide fixed producer bases.

By way of background it should be kept in mind that there are approximately 800,000 farms from which milk or cream is sold commercially. This number has been decreasing. Since 1954 milk production has increased slightly, about 3½ percent. During this same period the production of milk fat has decreased slightly.

About half of the milk and cream sold from farms is used for consumption in fluid form and the remainder is used in the production of various manufactured products. Of the manufactured products butter accounts for about 50 percent with the next large usage being in cheese and ice cream.

The two broad Federal programs relating to milk are the support program under the Agricultural Act of 1949 and the milk order program.

The price support program is made effective through the purchase of butter, cheese, and nonfat dry milk. Under that program supplies not sold commercially at or above support prices are channeled to the price support products. On a fat equivalent basis butter has accounted for the major Government purchases.

There is no question but that the support program has been effective in increasing producer returns. Basically, it supports the milk order price structure.

Meanwhile, the consumption of butter per capita has been decreasing.

Butter consumption incentive

The American Butter Institute in cooperation with the National Milk Producers Federation and the National Creameries Association advocates the adoption of a program under which butter consumption is encouraged. This could be accomplished by a program under which butter would be made available to consumers at reduced prices and returns to producers for the milk fat used in butter would be maintained by payments through dairy product manufacturing plants.

The objective of such a program is well set forth in S. 1563 as follows:

"It is preferable that such excessive supplies be consumed in the domestic commercial markets and that the industry be encouraged and aided in promoting expanded use of dairy products, particularly butter. This can be accomplished by authorizing the Secretary to make payments to producers, either directly or through dairy products manufacturing plants acting as his agents, on milk and milk fat in cream used in manufacturing butter and such other dairy products containing milk fat as he deems advisable, as a method of price support, when in his judgment such payments will be effective in encouraging increased sales of

such products through incentive pricing of them to consumers in the markets, in avoiding acquisition and accumulation of excessive stocks under price support operations, and in protecting dairy farm income while producers are adjusting supplies more nearly to market demand."

The purpose of this program is that of increasing the consumption of butter through commercial channels. While total milk production has increased but little the Government under the present milk and butterfat price support program has removed from the market the equivalent of 6 to 9 billion pounds of milk in the last few years. Meanwhile, per capita consumption of butter in the marketplace has declined. It is believed that a program of the type indicated would cause an increase of purchased butter and reduce the volume which the Government has been purchasing. Under the program the Government could secure any requirements for various Government supply programs by direct purchase.

Milk used for manufactured dairy products under the Marketing Agreement Act of 1937, as amended

Various amendments to the Marketing Agreement Act of 1937 have been suggested specifically providing that marketing orders are applicable to milk used for manufacturing.

On behalf of both the Butter and Cheese Institutes question is raised as to the necessity or purpose of such an amendment. It has been our general understanding that the Marketing Agreement Act was not limited to milk used for consumption in the form of fluid milk. As a matter of fact efforts have been made to formulate marketing orders primarily for manufacturing milk. Such efforts have not been productive.

While it is true that it would be possible to classify and price milk used for manufactured products on the basis of the end usage, analysis indicates that the gains which might be made in increasing the price of milk for a specific product would result in the sale of a lesser quantity of that product, with the remainder being diverted to other manufactured products. Such diversion would result in an increase in the supply, and a reduction in the prices of such other products. In other words, it is questionable whether there would be any increase in the total amount of money available for payment for milk. In addition, administrative expenses would undoubtedly be large because of the large number of producers involved and plants involved.

It is, of course, possible that those suggesting a market order for manufacturing milk have developed some ideas which are not apparent. They may assume that the price of milk used for certain manufacturing products could be enhanced by edict with results similar to those under fluid milk orders where class I prices are frequently set at relatively high prices. However, it should be noted that while class I prices may be set at arbitrarily high levels under Federal orders, all of the milk available is not sold as class I milk. In other words any surplus in excess of class I usage appears in other dairy products where such surpluses have the effect of increasing the supplies of such products and reducing prices or adding to Government purchases.

Certain of the bills before the Congress would amend the Marketing Agreement Act to allow the establishment of producer "quotas" or "bases" which might remain fixed over a period of time and which would be related to class I sales under fluid milk marketing orders. Possibly advocates of the development of a marketing order for manufacturing milk have in mind the establishment of bases for manufacturing milk producers related to the amount of milk which could be used for various manufactured milk products and with such milk being artificially priced.

It is to be noted however that while milk for these manufactured products could be artificially priced there would be no outlet for the milk in excess of that which could be sold at those prices. It would be possible that such surplus milk might be used in an export product category or a Government sale product category.

The institution of a program involving such classification and with the surplus priced very low would be comparable to the production or marketing control legislation for milk which was considered in previous sessions of the Congress and rejected. It is believed that a marketing order along the lines suggested would be opposed by the majority of producers.

The CHAIRMAN. All right, Mr. Carroll.

STATEMENT OF JOHN B. CARROLL, COUNSEL, UNITED PRODUCER DEALERS OF AMERICA, SYRACUSE, N.Y.

Mr. CARROLL. Senator, I am John B. Carroll, of Syracuse, N.Y. I am appearing here today on behalf of the United Producer Dealers of America who are farmers who distribute directly to the ultimate consumer, usually the housewife, the product that they produce on their own farm. Typically they engage in that activity in the vicinity of their farm, living on the outskirts of small rural or small urban communities.

Although we have one or two in large metropolitan areas, such as Boston, 99 percent of these people are in what we would consider rural or medium-sized urban areas. Their activity consists of producing milk. Historically they are farmers; psychologically they are farmers, and——

The CHAIRMAN. Actually they are farmers.

Mr. CARROLL. And actually they are farmers.

Quite often it is a family operation with a brother running the farm, another brother running the processing plant, and a third member of the family or an in-law governing the routes or handling the dairy bar to which the products are put out.

This industry, as you well know, was a majority of the industry in terms of sales in the 1920's and early 1930's. Everyone remembers the farmer with the wagon who went into town and sold his milk.

The changes in processing, increased costs in capitalization of processing, the revolution in interstate competition drove them pretty largely from the marketplace.

In Boston typically, in 1940, this phase of the industry was 30 percent, believe it or not, of the sales in a community of the type of Boston. Today it is less than 1 percent of the Boston milk marketing area.

The decline has come about partially because as cities expanded, farms were taken in, and nearby farmers sold their land for some other purpose. His children had good educational opportunities available that a generation or two earlier they did not have, and many of them left the farms, but a lot of the loss has occurred under Federal milk marketing orders, and we think we can show a greater pattern of loss under regulation than the nonregulated areas.

Part of that is in the inherent nature of an order, and part of it is the fact that it is just too much redtape in auditing and checking, book-keeping for a lot of farmers to do, and they are not effectively organized to do it.

However, we do have a remnant left of this industry. While they are not large in number, I submit to you today that they are an important, in principle an important, part of American agriculture and entitled to fair treatment.

The bill which was passed last year would have put them under the class I regulatory program. The effect of that, had it been enacted, would have been to force these people out of business because their class I utilization ratios are customarily 90 to 95 percent. They produce for the market they supply. There is no earthly purpose in over-producing for that market, and they have tailored their supply and their demand.

When this program, if it does again become law, is put into effect, they will be dropped back in terms of the sales that were allocated to them as producers to the class I utilization of the market they happen to be in.

In the State of New York, the New York-New Jersey area, which is a little bit less than 50 percent of the milk of the United States which passes through that area, the utilization is about 40 percent in the month of May, last month, so the man who dropped from a 95-percent utilization to about a 40-percent, or he would lose roughly 55 percent in terms of the revenue that he has mortgaged his farm for and borrowed for his cattle, he would be unable to pay his debts and unable to continue profitably in business.

I know this is not just something we can talk about in theory. In fact, we analyzed in the State of Massachusetts 75 of these operations, and had an accountant for the purposes of a hearing 2 years ago, go into their books and records, adjust, if he could, for the difference in the accounting systems, and determine from their tax returns and other material, verifiable material, what their profits were, and what would happen to them if they were forced back to full utilization, and out of those 75 he was unable to find one man who would have had sufficient profits in his business to have made part of the regulatory program and have survived in business.

So we are satisfied beyond a shadow of a doubt what we are fighting for in this bill involves the very existence of this particular industry.

I have one other case which the Senator may remember that occurred 2 years ago, which illustrates this even more dramatically. There was a farmer in New York State who had been in farming all his life, and his father ahead of him. They had a small route his father had started, and he had carried along.

He had four children. He raced for the phone one day and called a competing handler and said he would like to have a 20-quart can of milk sent to him because there had been some disease into his herd because he had brought in new animals to the herd. That was sent to him in a one, single large 20-quart can.

Under the interpretation of the milk marketing order, which was currently used by the Milk Market Administrator, that was a bulk purchase, and would not qualify, it was prohibited as a purchase for him as a producer-handler under the regulatory order.

Had it come in 10, 2-quart bottles it would have been perfectly satisfactory, and there would have been no penalty.

He lost his exemption under the terms of that order for 1 year. It was a year from the time the act was complained of before the Milk Market Administrator discovered what he had done through order, so he lost it for 2 years, and it was a total of \$21,000 assessed against a farm which showed a schedule of income of about \$9,000. So that we can say without any question if you take the \$21,000 and cut it in half, it still exceeds and takes more than the entire profit of the farm to be part of the regulatory program. This bill, in effect, is a loss of exemption as it presently stands.

It calls for a specific——

The CHAIRMAN. When you say "this bill" which one do you refer to?

Mr. CARROLL. Senate 399 at page 5.

The CHAIRMAN. What would you suggest be done there by way of amendment?

Mr. CARROLL. I suggest, my suggestion is, that—and we have spent a good deal of time on this, we want to answer the questions that are in Senator Aiken's mind as well—our suggestion is that we freeze the level of producer-handler sales at a relevant period in time, and that if it increases they pay to the extent that they increase, but that otherwise they be free of restriction and regulation.

So that to the extent that there is something about the regulatory program, which seems to be Senator Aiken's concern, that gives some impetus to this business, they are perfectly willing to reimburse the program for that. But they very much dislike living in a sudden death situation.

The CHAIRMAN. What they want then is to remain alone without regulations so long as they do not produce beyond their present production.

Mr. CARROLL. That is correct.

The CHAIRMAN. And if they produce above that then they come under regulation.

Mr. CARROLL. That is correct.

The CHAIRMAN. I think I understand it.

Mr. CARROLL. We think that is fair, and we think that with that type of regulation there is no need for the type of restrictions we have because at the present time there is a restriction in two marketing orders on the buying of cows. They can only be bought at certain times of the year.

The CHAIRMAN. How many farmers would that affect, about, do you know?

Mr. CARROLL. In the United States we can only take a guess. There would be several thousand in the United States, but in a typical milk marketing order area, you might say 75 to 100, and they do business, Senator, in every conceivable way.

If we restrict ourselves to telling them how they should do business in order to qualify, we are going to have some hardship, I know that. That is why we feel they should pay for the impact. That is the fairest proposal we can make.

In regard to your comments earlier, which we heartily endorse, about the program, and so forth, it may be of interest to you to know that because of my connection with milk I have been contacted by consumer organizations who are just now, in New York State, taking an interest in the whole commodity program, and in the State of Pennsylvania at the Junior Chamber of Commerce, and two other civic organizations led quite a considerable program against regulation in that State.

In the State of New Jersey the consumer organizations eliminated resale price maintenance. So we are beginning to get, like they are talking about the farmers being educated today slowly, the consumer is being educated, and we think to the extent that programs and proposals are fair and equitable it is to the best interests of the Government, and to the extent they are not, they are not. Thank you.

The CHAIRMAN. All right.

Our last witness is Mr. Benson.

**STATEMENT OF JULIUS M. BENSON, EXECUTIVE SECRETARY,
NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF THE DAIRY
FARMER, JEFFERSON, OHIO**

Mr. BENSON. Thank you, Mr. Chairman.

With respect to a special argument I have been living with all my life and just beginning to bear fruit, if we passed this bill we will have attained it, and that is it has always seemed irreconcilable to me that a dealer could buy by class but the farmer could not produce by class.

Now, we conceive of this thing as voluntary, and what we would have been objecting to is what we have right at the top here: "We are in business to produce grade A milk for the class I market. Why should we be forced to produce cheap surplus?" That is what we practically have done all our lives, and in the Cleveland market, where my son ships right now, why, it has gone as high as 47 percent surplus, and the price today he gets is \$3.92.

I am representing the newly formed National Association for the Advancement of Dairy Farmers. Our purpose is educational. We are asking questions, and expect to get answers. That is what this country stands for.

When the Proxmire bill was under consideration, some of us under the Cleveland order began asking: Should grade A dairy farmers be forced to produce cheap surplus milk? The fact that the House Dairy Subcommittee voted out the Poage class 1 base bill by a unanimous verdict indicates the 1965 answer. We congratulate Congressman Poage.

This incident occurred the night (over a year ago) we met at a neighboring farmer, J. J. Lindholm's. Robert Bailey, Dorset, Ohio, a member of the Advisory Council of the Cleveland MPF related how proud Manager Charles Laughton was that the Orville Milk Condensing Co., now farmer owned, was making money for its stockholders on surplus milk. Bob said he asked Manager Laughton why he was not equally interested in the price of class 1 milk. The answer came this year when the Lawson Milk Co. announced that they were going to pay \$5 for class 1 milk for 3 months, and would continue to pay it through the summer months if the Milk Producers Federation would do likewise. And so the dairy farmers, in the Cleveland market here, are losing \$3 million because their cooperative was powerless. There was an adequate supply of surplus milk in the Cleveland market; but a 2-percent reduction in hog numbers sends prices almost double.

Harold Forman, vice president of this organization, was asked at our last meeting if class 1 bases would not make it harder for a young man to enter the dairy business. Harold's answer: "Have three boys; two have already left me. They will not take my farm as a gift. If it were a paying business, they would gladly buy."

W. D. Knox, editor of *Heard's Dairyman*, should be congratulated also for researching the cost of this ruinous policy of forcing grade A dairymen to produce cheap surplus milk for years and years and years. The letterhead carries the figure. I have been told by some people today that while the letterhead carries a figure of \$700 million, that

the Government pays out each year to buy up the unused surplus, they tell me now it has dropped to \$350 million.

The CHAIRMAN. Well, this year, I think it is \$408 million that is the cost.

Mr. BENSON. \$408 million.

The CHAIRMAN. Yes; last year the total cost of the milk during 1964, the milk program, was \$764.5 million.

Mr. BENSON. That justifies our figure at that time.

In closing, this final question: Is there any economist, any cooperative leader, any member of the USDA who says that we grade A dairy farmers, in the Cleveland Federal order market, are not compelled to produce cheap, \$3, surplus milk?

Why can't this Senate committee also unanimously report in favor of this Poage class 1 base bill?

The CHAIRMAN. Wait a minute. Do you know what percentage of the milk produced in that milk shed is used for direct consumption? Do you know?

Mr. BENSON. Well, I cannot tell you exactly, but it is probably between——

The CHAIRMAN. Fluid milk.

Mr. BENSON. Thirty to thirty-five is the class II.

The CHAIRMAN. Thirty to thirty-five.

Mr. BENSON. Yes; is class II, so that would leave about 65 percent.

The CHAIRMAN. About 65 percent. You are about right—65 you said, but it is 63 in that area, and the rest of it is cheap milk.

Mr. BENSON. So, as a kind of a spoof on the NAACP, this vice president of our organization here suggested why don't we have a National Association for the Advancement of the Dairy Farmers.

The CHAIRMAN. All right. Thank you.

Mr. BENSON. Thank you, Mr. Chairman.

The CHAIRMAN. Well, that ends the hearings for today. The committee will stand in recess until tomorrow at 10 o'clock.

(Whereupon, at 4:45 o'clock p.m., the committee was recessed, to reconvene at 10 a.m. on Tuesday, June 29, 1965.)

(Additional statements on dairy products filed for the record are as follows:)

STATEMENT OF HON. GAYLORD NELSON, A U.S. SENATOR FROM THE STATE OF WISCONSIN, ON S. 399

Mr. Chairman, I appreciate this opportunity to submit testimony on S. 399, a base excess plan that would operate under Federal milk orders so as to encourage reduction of milk production.

Although S. 1702 does not contain a dairy section, I understand a base-excess proposal may be in the omnibus farm bill when it comes before the Senate. Therefore, I urge this committee to consider several economic problems that certain base-excess provisions would create.

It is possible through a base-excess plan, for example, to erect almost insurmountable barriers to entry of milk into fluid milk markets under Federal orders and to greatly inhibit the economic movement of milk between Federal order markets.

Either would be a setback for the manufacturing milk areas, particularly those in Iowa, Minnesota, and Wisconsin.

One base-excess plan, introduced in the House by Congressman W. R. Poage, of Texas, would include quota provisions in Federal milk orders which would reserve the entire class I market to those producers who were supplying the market at the time the plan was made effective.

This would create a barrier to entrance into the market for large numbers of farmers. Once such provisions were established, they would severely restrict the opportunity for entry for sale into the Federal order market of milk produced by farmers who had not sold milk in such a market at the time the quota plan was established.

Under another provision in the Poage proposal the class I sales, at the time the proposed quota provisions would be made effective under a Federal order, would be divided among the producers then supplying the market on the basis of their marketings during the representative period. This could be one or more of the immediately preceding years.

This would bar new producers, or "outside producers" who did not sell milk in that market during the base period, from obtaining a class I base unless total class I sales in the market expanded. Even then it probably would be possible only to the extent of some share of the amount of the expansion in class I sales.

This kind of plan also would mean that a dairy farmer who had been shipping milk to another market, or to a manufacturing plant, would receive only the lower manufacturing milk price for any milk he might sell into such a Federal order quota market. He would receive this low price regardless of the higher price that dealers might be required to pay into the market administrator's "pool" for milk that they used for sale to consumers for fluid use.

The dealer, in this instance, would have to pay to the administrator the difference between the lower manufacturing price paid to the farmer who produced it and the higher class I price. These payments would go to farmers who had quotas and might be as much as \$2 to \$3 a hundred pounds.

This type of barrier also would impose an economic hardship on a dealer who did not sell milk in the Federal order market during the base period. If he later tried to sell in this market he would be required to pay a "compensatory payment" equal to the difference between the class I and manufacturing milk prices, to be divided among the "old producers" having quotas.

This situation would have the practical effect of barring any new dealer from entering and competing in the market once a quota plan was established.

It also would impose substantially greater restrictions upon the marketing of milk than the "compensatory payments" provisions that were outlawed by the Supreme Court in the *Lehigh Valley* case in 1961. Those provisions, in general, allowed the leaders to avoid paying "compensatory payments" on milk regardless of where or from whom it was purchased, provided they certified to the market administrator that they had paid the class prices specified in the order to the farmers who actually produced the milk.

Base-excess proposals drawn without carefully spelled out "right of access" protection, therefore, would make it uneconomic for farmers not having a base to sell milk in a Federal order quota market. It would bar them from any class I return—except that coming from any increase in the total class I sales in the market out of which they might receive a share.

Base excess plans have many limitations at best. But if one is recommended by this committee, it should contain strong "right of access" provisions that will make it nondiscriminatory.

The minimum safeguards that this committee should consider in any base-excess plan is the "right of access" amendment language that was in the Proxmire bill when it passed the Senate 2 years ago.

It would be pointless for the Congress to adopt a system of national sanitation standards guaranteeing the flow of milk across State lines on the one hand, as Senator Mondale, of Minnesota, has proposed, and at the same time adopt a base-excess plan that set up new economic barriers to milk marketing.

I would hope that the committee would consider carefully the many ways that barriers can be built into a base-excess plan. A strong antibarrier feature should be part of any base-excess plan that this committee might report out.

STATEMENT OF THE HON. GAYLORD NELSON, A U.S. SENATOR FROM THE STATE OF WISCONSIN, ON S. 1563

Mr. Chairman, I appreciate this opportunity to submit testimony in support of S. 1563, which I introduced a few weeks ago. This bill would encourage consumption of dairy products, particularly butter, by authorizing the Secretary of Agriculture to lower retail prices up to 20 cents a pound through payments to farmers or dairy plants on manufacturing milk.

This proposal also would give the Secretary additional discretion in raising dairy price-support levels above the present minimum of 75 percent of parity.

The dairy income problem this bill seeks to deal with is of serious immediate and long-range concern to Wisconsin, which is the Nation's leading dairy State. Mainly because of geographical location, about 80 percent of all milk produced in Wisconsin has to be marketed at the low-manufacturing milk price because it can be utilized only for nonfluid uses such as butter, cheese, ice cream, and nonfat dried milk.

But the dairy income problem is not limited to Wisconsin by any means.

A study completed earlier this year by Prof. Truman Graf, one of the Nation's leading dairy economists, concluded that the average annual dairy farm income per worker is less than one-half the average annual wage per employed factory worker. And that the average return per hour on commercial dairy farms is only about one-fourth the average hourly wage of factory workers.

It is time the Congress adopted a program to (1) increase the support price of milk and (2) reverse the rapid drop in per capita consumption of dairy products.

The latest figures available show that per capita consumption of nearly all the major dairy products is going down at a fairly rapid rate. This downward trend signals plenty of trouble for the dairy industry in the years ahead.

"Agricultural Statistics 1964," issued recently by the Department of Agriculture, shows civilian consumption per person of butter has dropped from 10.5 pounds in 1949 to 6.7 in 1963; condensed and evaporated milk from 19.8 pounds to 11.7, and fluid milk and cream from 352 pounds to 308. Ice cream has held at about 18 pounds throughout the period and cheese has showed a slight increase to 9.3 pounds.

The only sizable increase is in nonfat dry milk, which has gone up from 3.3 pounds per person in 1949 to 5.6 in 1963. But this, of course, is an item from which the butterfat has been removed.

These figures show that dairy products with a high butterfat content—and particularly butter—already are in trouble. And they help to explain the slackening demand for these products that forces the Government, through the Commodity Credit Corporation, to purchase roughly 25 percent of all the butter produced in this country.

Butter is second only to fluid milk utilization in providing income to dairy farmers. About 25 percent of all milk produced in the United States is used in the manufacture of butter. In Minnesota, for example, the proportion of milk used in producing butter is around 70 percent.

Under this proposal the Commodity Credit Corporation would continue to offer to purchase butter and American cheese at prices 15 to 20 cents a pound for butter and 5 to 7 cents a pound for cheese below the announced price-support level. The income of dairy farmers would be maintained through dairy consumption incentive payments equal to the difference between the support price and the CCC purchase price.

The retail prices of butter, cheese, ice cream, and other manufactured dairy products would be permitted to drop sufficiently to encourage the purchase by commercial users of most or all of the total quantity of butterfat produced. This would move these products through grocery stores onto the tables of cash-paying consumers instead of into Government warehouses.

The program would have no detrimental effect, of course, on milk produced in Federal order markets. Minimum prices for class I milk which are established under these orders on a basis of prices received by farmers for milk used for manufacturing would be adjusted to reflect prices received plus the amount of payments received on milk for manufacturing.

A butter subsidy program has been in effect for several years in Canada and has stimulated butter consumption in that country. Limiting the program to butter would cause difficult substitution problems in the United States, resulting in use of lower priced butter instead of cream in making ice cream and other dairy products. For that reason, this bill provides a subsidy on butterfat rather than on butter alone.

A butterfat subsidy program in this country would both increase utilization of butterfat and reduce CCC purchases of butter.

A study by the department of agricultural economics at the New York State College of Agriculture in 1963 estimated that a butter subsidy program, equivalent to 15 cents a pound, would have reduced the outlay for support purchases by \$235 million in the 1963-64 marketing year.

This level of butterfat payments would have cut CCC purchases of butter from the actual 340 million pounds to 120 million; of cheese from 140 million pounds to 130 million; and of nonfat dry milk from 1,250 million pounds to 860 million.

Government payments for the subsidy would have been somewhat more than the savings from reduced surplus purchases, storage, and transportation.

But the savings to consumers through lower prices for butter and other dairy products—plus the savings to the Government of high storage, processing, and transportation costs on surplus butter—would far more than offset the cost to the Government of the payments to dairy farmers needed in order to maintain and increase their incomes.

It is true that butter stocks have been low in recent months. But the strong position of butter in the market, both foreign and domestic, is mainly the result of drought in Europe that created a strong demand in late 1964 for American dairy products.

The outlook now, however, is for rising production in Western Europe, Australia, and New Zealand, and it is not expected that this year's exports will be as high as last year's. Also under new Common Market rules, few nonmember dairy imports will be permitted until Common Market milk is used.

When these overseas markets slack off, as they appear to be now, the American dairy farmer again is faced with a problem of rapidly accumulating butter surpluses. And experience shows that butter, of all dairy products, is the most difficult to move in foreign markets.

The problem of butter disposal, therefore remains the weakest link in our dairy industry. We can probably continue to find sufficient markets for cheese and dry milk abroad. But in the process of preparing these marketable commodities, we pile up more and more butter.

The butter purchased by the Government provides some return, of course because it contributes to worthwhile projects both at home and abroad. It is distributed to welfare recipients and charitable institutions in this country and channeled to school milk programs, school lunch programs, and military and other Government installations. It is sold with the help of an export subsidy that now is around 28 cents a pound. And some is given away in the food-for-peace program.

However with butter, unlike cheese and nonfat dry milk there is practically no market building effect in Government donation programs. Users under donation programs, because of the present high retail price of butter, are not likely to become commercial customers for butter even when they do become self-supporting. The donation program for butter, therefore, performs no long-range purpose as long as butter remains priced at around 60 cents a pound.

The Government-owned butter resold for export moves only at extremely low prices, between 25 and 30 cents a pound. This is much below the price U.S. consumers must pay for the butter they buy for their own families.

Butter also is a downhold on the worthy projects of school lunches and relief feeding in the food-for-peace program. If we want more dry milk, which is one of the most popular items distributed overseas, we also get more butter from the butterfat that is removed in making this nonfat product.

The high cost of butter also makes it extremely costly to use in the food-for-peace program. It costs the Government about 80 cents a pound of milkfat to buy and process Government-owned butter into butter oil, can it, and ship it to port for shipment overseas.

The comparable cost of vegetable oil is only 15 cents a pound. The recipients generally prefer the vegetable oil, pound-for-pound, because it is considered to have better keeping qualities and a flavor more closely comparable to the oils they have traditionally used.

The industry is attempting to reclaim some of the market lost to oleomargarine, which sells at up to 45 cents a pound under butter, and to other dairy substitutes such as non-dairy ice milk.

University of Wisconsin researchers are putting butter into a form that can be used in dry baking mixes. It is reported they now can make a spray dried butter product containing 80 percent fat that looks like dried whole milk powder and has similar keeping qualities. The industry also is working with a low butterfat butter that could sell at 35 to 50 cents a pound.

But these efforts, even if moderately successful, cannot overcome the steep downward trend in domestic consumption of butter and the necessity of accumulating huge Commodity Credit Corporation surpluses in the future.

These facts show the need of trying to expand the market for butter and

other dairy products high in butterfat. And the necessity for doing something to increase the income of dairy farm families.

These two goals, lower prices to consumers for butter and other dairy products and higher net returns to producers, can be accomplished by making payments to producers through plants, in an amount deemed necessary by Congress and the administration.

STATEMENT BY JOHN C. YORK, EXECUTIVE SECRETARY, EASTERN MILK PRODUCERS COOPERATIVE ASSOCIATION

Mr. Chairman, and members of the committee, I want to express my appreciation for the opportunity to appear before you today. I will present a statement on behalf of Eastern Milk Producers Cooperative Association, of which I am executive secretary. Our offices are in Syracuse, N.Y.

Eastern Milk Producers Cooperative is a bargaining cooperative, and is the largest of its kind in the Northeast. It has a membership of about 10,000 dairy farmers. In 1964, our members produced over 2,031 million pounds of milk, valued in excess of \$86,325,000. Eastern members are located throughout the New England and Mid-Atlantic States. Our members' farms reach as far north as northern Vermont, as far south as Maryland, as far west as western Pennsylvania, and as far east as Connecticut. The milk from these farms is sold in every major market of the Northeast.

Eastern Milk Producers Cooperative Association was organized in 1922. Currently, we supply milk to four of the federally regulated markets of the Northeast, as well as to a number of unregulated markets in Pennsylvania and New York.

In appearing before the committee today, I should like to express the position of our association on a number of bills pending before this committee, which bills are related to the dairy industry.

The first bill on my list is S. 109. This was introduced by Senator Aiken. The proposed measure would outlaw certain unfair practices by buyers of agricultural commodities, when these practices are directed against farm cooperatives, their member-producers, or prospective members. We are wholeheartedly in favor of this bill, and urge its speedy enactment.

The second bill on my list is S. 1563—the proposed Dairy Consumption Incentive Act of 1965—introduced by Senator Nelson. The bill would expand the present provisions of section 201 of the Agricultural Act of 1949 so as to authorize, as a method of price support, the making of payments to producers on milk and butterfat used in manufacturing butter and other dairy products. Under present provisions of the act, price support may be provided through loans on, or purchases of, milk and the products of milk and butterfat. In actual practice, purchase operations are the only means of supporting the price of milk and butterfat. Accordingly, we feel that the use of an additional method, such as the making of payments to producers, would add a welcome degree of flexibility. Finally, the method of making payments to producers would make it possible for consumers to buy butter at a lower price, and thus expand the market for dairy farmers. For these reasons, our association supports S. 1563.

Our association also supports S. 1838—a bill to make dairy products available for domestic and foreign programs. The bill, which was introduced by Senator McGovern would authorize the Secretary of Agriculture to purchase sufficient supplies of dairy products at market prices to meet the requirements of domestic or foreign distribution programs. A law of this type is needed in order to enable the Secretary of Agriculture to purchase commodities at prices above the officially established support levels, especially when these levels have been established at too low a point.

Proceeding now to a discussion of S. 390, introduced by Senator Ellender, I should like to say, to begin with, that, from the point of view of its potential effects on dairy farmers, this is the most important legislation pending before the committee.

S. 399 would provide enabling legislation to establish a two-price plan in federally regulated markets that is, markets operating under a milk order issued under the Agricultural Marketing Agreement Act of 1937, as amended. The bill would not distinguish between producers under a Federal milk order shipping to fluid outlets as opposed to manufacturing outlets because it would make possible the payment to all producers in the market one rate of return on milk used for fluid consumption and a lower rate of return for surplus milk. Where

the two-price plan was adopted, all producers in the market would be eligible to participate in the program and receive a share in the fluid sales of the market even though their milk may be delivered to a manufacturing plant. Each producer would be given an allocation based on his share of the fluid sales of the market in some base period and for that share he would receive the higher return.

It should be emphasized that, where adopted, the plan would enable those producers interested only in producing for their share of the fluid market to do so. In other words, they would no longer have to produce surplus milk in order to hold on to their share of the fluid market. At the same time, it would permit those producers who have low marginal costs of production to continue producing surplus milk, without, however, diluting the blend price to other producers, as is now the case.

Federal milk orders are so formulated that they encourage the production of surplus milk. They do this by virtue of the fact that, because of the operation of the pooling arrangement, producers receive a single blend price for all their milk. The producer then is receiving more for surplus milk than it is worth. The two-price plan, by lowering returns for surplus milk to its market value, would lessen the incentive to produce such milk.

The two-price plan has sometimes been opposed because it might vitiate the present method of establishing prices that handlers must pay for fluid milk under Federal milk orders. These are the so-called class I prices. We are not convinced that this would necessarily happen. Assuming, however, that it would, we are confident that other pricemaking techniques could readily be developed. As things are, producers are not altogether happy with present procedures, and the development of new methods might in itself be a good thing.

Objections to the two-price plan have sometimes been based on a false analogy to an older version of the base surplus or base rating plan. The two-price plan, as we envisage it, is not the same thing as the old base surplus plan. There is no intent under the two-price plan to give each producer a fixed quota for which he could expect to receive the class I price. What proponents of the two-price plan are seeking, is the introduction of an arrangement whereby the total proceeds from the sale of all milk in a market would be apportioned among producers in a manner more equitable than the present scheme of marketwide pooling. To judge the two-price plan on the basis of past experiences with the base-surplus plan serves only to confuse the issue.

S. 399 is in the form of enabling legislation, that is to say, it would enable, but not compel, any market to adopt the two-price plan. In view of this, and in view of the fact that many producers in other parts of the country favor this plan, our association supports the enactment of the bill.

In our own situation, we would consider the details of the program as proposed for each respective market, if one were proposed, and we would express our position at the hearing called to amend the order for that purpose. It would be included in a particular order only if at least two-thirds of the producers in the market favored it.

Aside from the bills that are pending before the committee, we are interested in three additional measures for which bills have not been introduced. First, we are in favor of legislation that would amend the Agricultural Marketing Agreement Act of 1937, as amended, for the purpose of authorizing the so-called compensatory payment provisions in Federal milk marketing orders. Compensatory payment provisions have long been a feature of such orders. Briefly, their purpose was to equalize the price dealers paid for milk imported from non-regulated sources with the price they paid for milk regulated under the milk order. This equalization took the form of a payment by the importing dealers, which payment was made to the producer milk pool.

On June 4, 1962, the U.S. Supreme Court held that compensatory payments had not been authorized by Congress. The Court explained that the compensatory payment plan could be sustained as necessary to effectuate the expressly authorized provision of the orders "only if the Secretary has been authorized by statute." To protect the position of milk producers delivering their milk under the milk orders, it is essential that the Secretary be given the authority the Supreme Court said he lacked.

The second measure we would like to see enacted would be a bill to clarify the authority of cooperative associations of milk producers to negotiate and bargain, with respect to prices and other terms of sale, with milk dealers singly or in groups. In the absence of this type of legislation, there are doubts concerning

the legality of cooperatives doing that. This has weakened the bargaining power of cooperatives. The Senate enacted a bill of this type in 1958 and again in 1959, but they failed of passage in the House of Representatives.

Finally, we feel it essential that the Marketing Agreement Act of 1937 be amended to provide that during times of severe drought or other disaster conditions, the Secretary of Agriculture, when requested by producers, shall be authorized to: (1) Call a hearing to receive evidence concerning the emergency conditions, and (2) raise the price of milk if warranted by changes in pasture conditions, in the supply of homegrown feeds, and in the price of feeds.

In 1964, we experienced in the New York milkshed the third successive year of severe drought conditions resulting in skyrocketing production costs to a large share of the producers in the area. Economic relief, and in fact even the opportunity to be heard at a hearing, was denied producers by the Department of Agriculture on the grounds that the Agricultural Marketing Agreement Act of 1937 did not provide such authority in view of the supply-demand relationship in the market. The proposed legislation would provide this authority and we urge your serious consideration of this measure, particularly in view of the fact that we are again facing a serious drought this year.

This concludes my remarks, Mr. Chairman, and on behalf of Eastern Milk Producers Cooperative Association, I express to you our appreciation for this opportunity to present our views in regard to the pending dairy legislation.

STATEMENT OF WM. C. ECKLES, MANAGER, PURE MILK PRODUCTS COOPERATIVE,
FOND DU LAC, WIS.

Pure Milk Products Cooperative is an organization of some 14,000 dairy farmers located throughout the State of Wisconsin, northern Illinois, and the upper Peninsula of Michigan. The organization is a bargaining and service cooperative for its members with respect to the marketing of their milk. Members produce and market nearly 3 billion pounds per year.

About half of the milk of our members is marketed in five Federal order markets in Wisconsin and adjoining States. The other half goes to manufacturing plants which produce a wide variety of dairy products, including evaporated milk, powdered milk, butter, and various types of cheese.

Our membership generally consists of family-type farmers who depend upon dairy production for the major share of their income. Their type of farming is characterized by heavy investments, long hours, and low income.

USDA Agricultural Information Bulletin No. 230 reported 1963 average capital investments of \$67,680 on eastern Wisconsin grade A dairy farms, \$44,800 on eastern Wisconsin grade B dairy farms, and \$37,410 on western Wisconsin grade B dairy farms. After payment of operating expenses and allowances for current interest rates on invested capital, the amounts left for the labor of the operator and his family were equal to 49, 18, and 64 cents per hour, respectively, on the three types of farms.

In the face of the financial hardships indicated above, our members are constantly striving to improve their income. Each year Wisconsin dairy farms become fewer, but larger. Since 1952, the number of farms from which milk is marketed in the State has decreased by one-third, but total milk production has increased by about one-fourth. Milk production per farm has nearly doubled. The return per hour of labor to the farm operator and his family, after making allowances for interest on invested capital, has decreased from levels of 53 cents per hour in eastern Wisconsin and 70 cents per hour in western Wisconsin.

The efforts of farmers to improve farm efficiency, while only resulting in depressed prices and low income to farmers, has brought real benefits to nonfarm consumers. The result has been a subsidization by farmers of consumers in the form of food prices at the lowest levels in history in terms of hours of labor.

The dairy products purchased by the family of the average urban wage earner in 1964 were very little different from 1947 levels, having increased only from \$161.74 to \$178.92 according to Government reports. However, the cost to those other than the farmer for getting the dairy products from the farm to the consumer increased 40 percent, from \$71.15 in 1947 to \$100.28 in 1964. At the same time, the farmer's share decreased 13 percent, from \$90.59 in 1947 to \$78.64 in 1964. It is interesting to note that in the same period the average weekly manufacturing wage increased 110 percent, from \$49.17 to \$103.38.

Dairy farmers in our area have suffered far greater losses in relative income standards than the national average because of a discriminatory policy in the

pricing of fluid milk by the USDA in its Federal milk order program. For some reason, completely unexplained to us, the USDA has followed a policy of establishing Federal order grade A class I milk prices based on the manufactured milk price in our area plus the cost of transportation from Wisconsin and Minnesota to other markets scattered throughout the United States. The USDA Federal order representatives like to refer to their policy as considering the cost of alternative supplies. However, in other areas of the United States, they continue to use the system where there are abundant manufactured milk supplies much closer than Wisconsin.

While all Federal order markets in the Nation had a 1964 average of 3.5 percent class I price of \$4.87 per hundredweight and used 62 percent of all producer receipts in class I, the class I prices in a half dozen markets in our area ranged from \$3.69 in northwestern Wisconsin, with 60 percent in class I, to \$3.94 in Minneapolis-St. Paul, with 63 percent in class I.

Most markets in our area reflect a reduction of 24 cents from the announced class I prices because of a so-called supply-demand adjustment, which we believe does nothing more than provide an incentive to handlers to keep heavy supplies of milk on the market. The results are low farm prices and low price obligations to handlers, in the hope that such will be passed on as low prices to consumers.

Some of the problems of our members could be alleviated if the Secretary would suspend or eliminate the supply-demand adjustment price reductions in our Federal order markets. Further help could result if the Secretary would consider the status of the farmer a little instead of using as his sole objective in milk pricing the adequacy of supply to insure low consumer milk prices.

We do not believe that such action requires legislation, but we do believe that the Secretary of Agriculture needs the backing and encouragement of Congress to take such steps in the face of opposition of long-entrenched Government employees who have developed a vested interest in the policies which they have established over a period of many years without regard to the political affiliations of the Secretary in office.

We believe the Secretary needs clear-cut assurances that the milk market order program is intended to aid producers in the establishment of reasonable prices based on parity levels, and not just to provide adequate supplies for consumers.

In addition to the above recommendations dealing with the elimination of supply-demand adjusters in Federal milk orders, our organization recommends congressional action to correct various problems in dairying as follows:

1. We believe that the channels of interstate commerce must be kept open in order that the milk of our members may find its way into consumer markets of other States. Dairy farmers spend large sums for production and personal expenses, as machinery, feed, fertilizer, building materials, automobiles, food, and clothing, which are far in excess of their annual net income. If they are to continue to provide a market for the industrial output of other States, they must be permitted to make their farm production available to consumers in other areas. Thus, we believe it imperative that the channels of commerce be kept open to the free flow of high quality grade A milk and urge the enactment of legislation to that effect.

2. We urge that the Secretary of Agriculture be given clear legislative authority to buy adequate supplies of dairy products and foods in the open market to fill long-term needs of the school lunch programs, the military, and the foreign and domestic relief needs. The authority for open market purchasing should be available regardless of the relationship between market and support price levels. We cannot hope to develop sound domestic or export programs based only on those commodities which are in surplus supplies. We must be in a position to make long-term commitments for the sale of dairy products and then live up to those commitments regardless of whether or not we, at a particular time, have surplus stocks.

3. We believe that steps should also be taken to insure that price support levels do not become ceiling prices, by providing that Government-held surplus supplies be made available for commercial market use only at levels at least 15 percent above price support purchase costs plus storage and handling charges.

4. We support the principles and encourage legislation to provide for supply management at levels which will return farmers reasonable incomes to permit them to enjoy living standards on a par with those of the nonfarm sector of our economy.

We doubt that agriculture can ever enjoy healthy status without the adjustment of production to the level of output which can be absorbed in the market

at reasonable price levels. Therefore, we believe steps must be taken to encourage a reduction in our farm output without endangering the ability to step up production again at a later date as demands are increased by our growing population.

5. We favor the use of supplementary Government payments made directly to farmers, as a means of farm income support. This is generally more efficient and less costly to consumers when considering both grocery bills and taxes than is the present purchase, storage, and disposal program.

STATEMENT OF FRED C. LOWENFELS, PRESIDENT, HOTEL BAR FOODS, NEW YORK, N.Y.

I am grateful for this opportunity to be able to present the views of that part of the dairy industry that has the job of moving the finished product into the hands of the consumer. My firm has been actively engaged in doing this job for 80 years. I personally have been involved for more than 29 years so that I think I can speak as "expertly" on the commercial disposal of butter as anyone in the country.

Because bill S. 1563 in its preamble the following phrase "to encourage the consumption of dairy products, particularly butters * * *" I should like to strongly urge your favorable consideration of this bill.

It is increasingly obvious that price support legislation that only encourages production and does not deal with consumption, such legislation is only doing half of the job. To the degree that the farmers are protected against lowered prices and decreased income, such legislation is fine, and apparently both Houses of Congress feel that this is the desire of the country. But I am confident that if a solution of surplus disposal could be found, everyone concerned would be a great deal happier, and it is to this matter that I shall direct my remarks.

In most of the recent years, about 8 percent of the total milk production has found its way into the surplus program. But when this 8 percent of the total milk is transplanted into finished products, particularly butter, the total amount is between 25 and 30 percent. One out of every 4 pounds of butter is put in the CCC stocks for eventual disposal. An even higher percentage, I believe, of dry skim milk has a similar fate. What has been the fate of this surplus butter? In the most recent crop year that ended April 1, 1965, 181 million pounds were disposed of as follows: schools, 95 million; institutions, 27 million; needy persons, 59 million; 23 million went to the Armed Forces.

In the crop year ended March 31, the support program removed about 350 million pounds of butter from the marketplace. Of this approximately half was given to schools, institutions, needy persons, and the Armed Forces; about 36 million pounds was sold back to the trade because of a temporary shortage. (Incidentally, this is the first time that any sizable quantity of butter has been taken by the industry because of shortage.) The surplus removals were higher than in previous years. Indications are that removals by the CCC this year are running at an even higher rate, and this year there is a different problem.

In the summer of 1964 a shortage of fats in Europe made it possible for exporters to dump a great deal of our surplus butter in Europe. This situation of shipping butter out of the country caused the shortage last winter in domestic markets. It also lulled the USDA and, unfortunately, Congress, into thinking that the surplus problem might have been solved.

The key to the "dumping" was the lowering of the price by the USDA to allow our butter to compete favorably in world markets. In other words the U.S. taxpayer "subsidized" the shipment of this butter out of the country.

This "subsidy" should be applied in the domestic market in order to solve the surplus butter problem.

Despite the terribly bad publicity that butter has received from doctors, it is my firm belief that consumers would rather buy butter than margarine. That this is so is remarkable. The amount of money spent by the margarine industry to advertise their product is immense. The variety of products that the margarine industry offers to the housewife is amazing. The variations in product that are allowed to the margarine industry under Federal regulations are numerous. Despite all of this, the average consumer would rather buy butter, if he could afford it.

In the supermarket shelves prices on margarine vary from 20 to 45 cents per pound. There are many, many brands, and most stores carry a wide selection.

Butter is offered to the same consumer at prices between 69 and 81 cents, and most stores do not carry more than one or two brands.

Unless the income of the family unit is above average, they buy margarine, because they can't afford butter.

But there is a strange phenomena in the marketing of butter. At certain prices, butter can be sold to all consumers, no matter what their income is. There seems to be a price which consumers will pay for butter. It's a very ordinary 59 cents. Yes at 59 cents per pound the consumer will take butter in large quantities. My firm has proven this many times in the past year, and we have seen other merchants, when there was a need for a big "feature" put signs and ads advertising butter at 59 cents, and the sales double, tripled, even quadrupled.

Now let me relate this to the bill at hand S. 1563. The aim of this bill is to encourage consumption of butter by payments. In other words a subsidy. I think that this is absolutely the only solution to the butter-surplus program. There are many reasons why this type of legislation should be given serious consideration by your committee. In the first place, it would seem only fair to give to every citizen the right to enjoy the wholesome goodness of real butter at a reasonable price. At the present time only those with fairly good incomes, or else little or no income can get butter either by purchase or if they receive it as a donation. The vast majority of the population in the middle-income bracket, are faced with the high price of butter. A subsidy program would certainly make butter available to more consumers.

It hardly seems fair to allow consumers in many parts of the world to enjoy our butter at lower prices than domestic, as a part of our surplus disposal program. Yet this is the effect of having a lower export price on butter than the domestic price.

Finally, there is another very important reason why a subsidy should be adopted for the butter industry. There is now growing up, in fact it has reached maturity, a generation of young people who are becoming householders who have never begun to consume butter. Unless these young people are exposed to butter at reasonable prices, it is very likely that the surplus program will become more and more acute as the years go by. A very large part of the present consumption of butter can be attributed to the part of the population that this is middle-, and past-middle aged, those people brought up to believe that margarine was a poor substitute for butter. This feeling is not held by the young people today, and they aren't going to buy butter unless it's priced lower.

The end result of this program, or any commodity program, should be to get the Government out of the support program. I believe that one of the effects of the subsidy will be increased consumption which will in the long run have the desired result.

It is likely that there will be great opposition to an effective subsidy from the Department of Agriculture. This type of program is hard to administer, and probably more expensive at the beginning than the present program. No one likes to change. But this change is imperative. The present system is obsolete.

It is also likely that the enactment of such legislation will be greeted with delight by many farmers unless there are some production checks that will be corollary to the bill. I don't think it would be fair to the taxpayers to make a subsidy program that will increase the cost too much. The farmers shouldn't expect to have their cake and eat it too. Production controls are essential.

As in many commodities, because of fluctuating supply and demand, butter prices have normally fluctuated between seasons. By taking advantage of this fluctuating I think that a flexible subsidy program could be evolved. This would probably cut the cost to the Government of the program. In other words, subsidy would only be payable when the price got below the fixed minimum.

One of the problems that the Department of Agriculture has is that it is like a two-headed animal. On the one hand it represent the farmers of our country. Yet in the same Department the consumer can get all sorts of information and assistance. So it appears that the USDA represents consumer and producer except in the area of prices. You gentlemen are in the same predicament. You must help the farmers of the country, with fair prices, and good laws. Yet these prices must take into consideration the end use of the product, the long-run effect of incorrect prices. You can't legislate products offhand on the consumer's tables. If you absolutely must support the farmer, then I think the consumer should receive some help in buying these products, and a subsidy is the only solution.

FOOD AND AGRICULTURE ACT OF 1965

TUESDAY, JUNE 29, 1965

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 o'clock a.m., in room 324, Old Senate Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender, Talmadge, Jordan of North Carolina, Bass, Montoya, Mondale, Russell of South Carolina, and Cooper.

Also present: Senator Symington.

The CHAIRMAN. The committee will please come to order.

I will ask my good friend from Missouri, Senator Symington, to introduce the first witness Mr. Hilton L. Bracey.

COTTON

Senator SYMINGTON. Thank you Mr. Chairman. As you know, Mr. Bracey has been in the cotton business for many years. With him is Mr. George Shelby, Jr., president of the Missouri Cotton Producers Association, also an expert in this field. There are many things that could be said about Mr. Bracey, but I will sum it up by saying what I believe the committee also knows, that regardless of whether one agrees with a particular request, nobody has more knowledge about cotton.

Now Mr. Bracey is going to present the cotton problem from the standpoint of the Missouri Cotton Producers Association.

Let me thank you, Mr. Chairman, for your gracious courtesy in allowing me to present him to the committee.

The CHAIRMAN. All right, Mr. Bracey.

STATEMENT OF HILTON L. BRACEY, MISSOURI COTTON PRODUCERS ASSOCIATION, PORTAGEVILLE, MO.

Mr. BRACEY. Senator Symington and Mr. Chairman and members of the committee, first of all we want to express our appreciation to you for permitting us to come here to present our views on cotton.

The CHAIRMAN. It will be of interest.

Mr. BRACEY. Thank you.

As cotton producers we depend upon both domestic and foreign markets. We cannot hope to maintain efficient cotton-producing units if we are denied free and complete access to either of these outlets.

Under the stimulus of competitive prices through the equalization payment provision of the Agricultural Act of 1964, cotton's downward

trend in the domestic market has been halted and reversed. Unfortunately, however, the reverse is true in the export market. The requirement that the domestic subsidy rate and the export subsidy rate be maintained at the same level has for all practical purposes tied the hands of the Secretary of Agriculture and nullified section 203 of the Agricultural Act of 1956 which states:

Quantities of cotton shall be sold as will reestablish and maintain the fair historical share of the world market for U.S. cotton.

We are convinced that lagging export sales during the current marketing year, which are running 1.5 million bales behind the 5-year average just prior to the 1964 act, will continue to decline unless something is done and done quickly to provide pricing flexibility in the world market. Exhibit No. 1 (attached) shows foreign free world consumption and production, the average rate of increase for the period 1955-64 and the trend projected to 1972. It shows consumption increasing at an average annual rate of 2.9 percent, and production increasing at an average annual rate of 4.3 percent. The projection shows that with a continuation of present trends, consumption and production will come into balance in 1970. It means that if we continue to follow current acreage and pricing policies, we will be completely out of the export market in 5 years' time, and be producing only for the domestic market. Such a course would spell disaster to our cotton industry and could mean a mortal economic blow to the Cotton Belt as a whole.

It is abundantly clear that flexibility is required in both pricing and sales programs if we are to (1) hold and stand any chance of increasing export markets for our cotton, (2) keep costs to the Government within reasonable limits, (3) ease the heavy pressures to further reduce price support levels to farmers producing the bulk of the cotton crop, and (4) forestall further reductions in basic acreage allotments.

We trust that our recommendation for more flexibility in export pricing and sales methods will not be interpreted as a recommendation to raise the domestic price level. It is not. We feel that it would be extremely dangerous and shortsighted to undo what has been accomplished in the domestic market under the 1964 act. On the other hand, we urge that it would be equally dangerous and shortsighted not to recognize and make provisions for differences in situations and conditions between export and domestic markets.

The Agricultural Act of 1964 fails to recognize that the real difference or inequity between domestic and foreign prices is the delivered price of U.S. cotton at the domestic mill door as opposed to the delivered price of U.S. cotton to the foreign mill.

Exhibit No. 2 shows that the most recent monthly average price of U.S. cotton, cost, insurance, and freight, Liverpool, was 27.5 cents per pound for Middling Inch. To this price a mill at Brussels, for example, must add at least another 100 points or 1 cent per pound to cover costs between the dock and the mill door. The Brussels mill then would end up by paying 28.5 cents per pound for our cotton or about 5 cents per pound more than our domestic sales price. This exhibit clearly shows that the price of U.S. cotton in world markets is considerably above the domestic sales price, and further that the world price has increased since enactment of the 1964 act providing for a so-called one-price system.

The present program does not, of course, provide a true one-price system because it ignores freight rate differentials and other costs that are part and parcel of our marketing system. Freight rate differentials have always been reflected in both the CCC loan level and the market price of cotton within the continental United States. This is why the loan rate on cotton in the mill area of North Carolina is some 1.5 cents per pound higher than it is in California. Freight differentials as well as other transit charges are a part of our marketing system. These charges are just as real and just as much a part of the marketing system between domestic and foreign points as they are within our domestic boundaries. Yet, they are completely ignored under the 1964 act.

Legislation is necessary to separate domestic and export pricing policies. This is a fact that we must face squarely and honestly if we are to stand any chance of staying in the export market. A legislative change is imperative if the Secretary is to be expected to do the things that must be done to save a significant portion of the export market for our cotton. The cotton industry and the general public cannot afford to accept the alternatives.

The CHAIRMAN. Before you go into that, last year, as I recall, we sold in excess of 5 million bales in export?

Mr. BRACEY. Yes, sir.

The CHAIRMAN. And there was not the two-price system then. How can you argue that sales this year which were made under the same conditions as last year, will be a figure of 1,200,000 bales less; in other words, there is no difference between the sales of 1963, in contrast to 1964, insofar as our foreign sales are concerned—how do you account for the decrease in our export base?

Mr. BRACEY. Well, there is a decrease between of 1 million and 1,500,000 bales.

The CHAIRMAN. What caused that?

Mr. BRACEY. As we see it, the cause was twofold: No. 1, export prices are higher than they were a year ago. This is in exhibit No. 2 which shows that most of our cotton in the world market is actually higher than it was a year ago.

The CHAIRMAN. That is always the case; is it not? The foreign cotton producer, outside of the United States, usually can sell cotton just a few points below ours. They are able to do that, because under our support price system they can tell in advance what our cotton is going to sell for, and knowing that, they can just undersell us.

Mr. BRACEY. I think this is right, but there is another part to this. This year for the first time, the Secretary has been required to make the same adjustment in the domestic market that he makes in the export market. And for budgetary reasons, for all practical purposes, he has had to lower the price on three bales to get a sale on one, because one-third of our cotton goes into export, and this it seems to us is probably the biggest consideration involved, because you well know what this program is costing.

The CHAIRMAN. I sure do. I predicted what it would cost and it is double what they said.

Mr. BRACEY. You were closer to right than almost anybody, I know.

The CHAIRMAN. Yes.

Mr. BRACEY. But this cost factor is probably the principle consideration why our export sales have declined, because, frankly, I do not think that the Department has pursued export sales as diligently and vigorously as it did the year before.

The CHAIRMAN. What is the difference in the sale price as between 1963 and 1964?

Mr. BRACEY. The difference in the price?

The CHAIRMAN. Yes.

Mr. BRACEY. Well, 1963-64——

The CHAIRMAN. I do not mean domestically—I am talking about the sales for export.

Mr. BRACEY. Well, according to this exhibit No. 2, in 1963-64, in that year, in August of 1963-64 our Middling Inch, Liverpool, moved at 26.8 cents per pound, and in August 1964-65, it is 26.94. And the latest month that we have here, in April, it is 27.49.

The CHAIRMAN. That is a difference of 14 points?

Mr. BRACEY. Yes, sir.

The CHAIRMAN. Do you think that little difference there would cause the foreign mill to buy from other places? I am told that all of them seek to buy American cotton, because it is better than the cotton produced in other parts of the world.

Mr. BRACEY. No, sir; that is not all the answer. Another part of the answer is the fact that we now announce a sales price and a sales policy a year in advance. They know exactly where we are going to be. This year they knew it was going to be at 23.5 cents a pound in this country, plus freight to them.

The CHAIRMAN. What would you suggest in respect to our sales abroad—to just sell it for whatever it will bring—not be tied down to the support price, or to give that in advance—how would you handle it?

Mr. BRACEY. We recommend competitive bid sales, because competitive bid sales is the way that we have sold cotton before. In fact, it is the only way that we sold cotton in big volumes. This was true back in 1957 after the 1956 act was passed.

Senator BASS. Can you speak a little bit louder?

Mr. BRACEY. Yes, sir; excuse me.

We think that competitive bid sales are the only way to really move cotton. And, Mr. Murphy testified before the House that we might have to lower our price to 17 or 18 cents a pound to get back into the world market on the scale that we want to get back in. And, certainly, you could not justify lowering the domestic price to 17 or 18 cents in order to sell cotton in the export market at that price. And this is the reason—one of the reasons why we are recommending that you separate domestic and export sale prices.

The CHAIRMAN. Can you account for the lesser amount that was used by the mills this year than was predicted by the Department, even when cotton was sold at world prices, even lower than world prices?

Mr. BRACEY. I do not think that there is any good answer to that, sir. We were disappointed, to say the least.

The CHAIRMAN. Of course, all of us were.

Mr. BRACEY. Yes, sir.

The CHAIRMAN. The use of manmade fibers has not decreased?

Mr. BRACEY. That is right.

The CHAIRMAN. We were told that if domestic mills got cotton at the world price, that we were going to use more cotton, but now we find that the amount of cotton that we did sell was about 200,000 bales more than we would have sold under my proposal.

Mr. BRACEY. Of course, we have not figured what we would have lost, or probably would have lost if we had not gotten the lower price.

The CHAIRMAN. Of course. Last year the Department estimated that the increase would be 600,000 bales under the bill that I proposed. And under their proposal, that is, the price to the domestic textile mills and foreign mills being equal would result in increased consumption of 1,100,000 bales. They are off about 300,000 bales or more according to latest estimates.

Mr. BRACEY. Or more.

The CHAIRMAN. That is right. By the end of the marketing year, I doubt that it will register more than 800,000 bales—maybe a little more or less than that.

Mr. BRACEY. Senator Ellender, we all know that the increase in the domestic market has been too small to justify the amount of money that the Government has put into the program and the amount of reduction in the price that the farmer has been forced to absorb. We know this.

The CHAIRMAN. Let me ask you this: since the competition among the domestic mills would be virtually the same, whether cotton sells for 20 or 50 cents a pound, what difference does it make if you sell it at support prices in contrast to the world price?

Mr. BRACEY. I think the main difference is the competition with these manmade fibers. Of course, you know what this is.

The CHAIRMAN. But as to the competition, except as to rayon, it has not changed any, even though they could get cotton at world prices. I recall that the trend is the same abroad. More manmade fibers are being used. And that, as I said, is not peculiar to this country, but, also, to the whole world, to all foreign mills.

Mr. BRACEY. We fear that any increase in the domestic price would, probably, encourage the manmade fibers or would put manmade fibers more into the picture than they are now. We think that it would be dangerous. Whether or not you can justify the price we have is really beside the point at this stage. We are in a dangerous situation.

The CHAIRMAN. And we have been for a long time.

Mr. BRACEY. Yes, sir.

The CHAIRMAN. And this new extension it was said would be a cure-all, that it would do this——

Mr. BRACEY. That is right.

The CHAIRMAN (continuing). That it would put cotton into the market, that if we put cotton at the world prices, they would buy a lot of it, but they did not do that.

Mr. BRACEY. We have the mills accustomed to using 23.5-cent cotton, and to think in terms of 28 or 30 cents scares us to death. We do not think that they will do it.

The CHAIRMAN. They will not do it.

Mr. BRACEY. We are afraid that they will not.

The CHAIRMAN. They have the best market in the world.

Mr. BRACEY. That is right.

The CHAIRMAN. Ninety-six percent of their output is sold here in the United States, the best market in the world.

Mr. BRACEY. Yes. We are hoping that we can leave the domestic price alone, and do whatever needs to be done in the world market. That is, actually, what we are hoping for.

The CHAIRMAN. By leaving the domestic price alone, you mean, under or according to the extension of last year?

Mr. BRACEY. Yes, sir.

The CHAIRMAN. Is that what you mean?

Mr. BRACEY. We would like to freeze it, so to speak, where it is.

The CHAIRMAN. Please proceed.

Mr. BRACEY. National acreage allotment: The 16 million acre minimum national acreage allotment must be preserved. A further reduction is unthinkable for two major reasons. First of all, a reduction would signal foreign producers that we are going to continue to make the supply adjustment for the entire world. Cotton acreage in this country has been reduced some 49 percent since 1949, the last year prior to production controls after World War II. Concurrently, free world acreage of cotton has increased by 7 percent.

Free world cotton acreage

[1,000 acres]

	1949	1964	Percent change
Total free world.....	59,465	63,816	7-percent increase.
U.S. share.....	27,439	14,058	49-percent decrease.

In 1949 cotton acreage in the United States was 46 percent of the total in the free world. In 1964 it was 22 percent of the total.

Free world cotton production

[1,000 bales]

	1949	1964	Percent change
Total free world.....	26,892	37,695	40 percent increase.
U.S. share.....	16,128	15,173	6 percent decrease.

In 1949 cotton production in the United States was 60 percent of the total in the free world. In 1964 it was 40 percent of the total. Cotton production in the free world has increased 40 percent while U.S. production has decreased 6 percent.

We have been called upon repeatedly to make the supply adjustment for the entire world. At the same time, we have seen foreign production increase—even encouraged by our own Government through various economic development and foreign aid programs.

The second major objection to a reduction in the national acreage allotment is that it would compound current inequities in the distribution of individual acreage allotments. Individual producers in some one-half of all cotton countries, where surplus acreage is available through the release and reapportionment provision, would take no cut at all while producers in areas where surplus acreage is

not available would be forced to absorb the full impact of the acreage cut.

Exhibit 3 (attached) shows, for example, that 15.4 percent of the 1964 acreage allotment in Alabama, 16.1 percent in Georgia, 23.7 percent in North Carolina, and 12.6 percent in South Carolina was unwanted by individual producers and was released as surplus and then reapportioned to other producers in the same States as bonus acreage. In all instances this bonus acreage went to producers who had already received their proportionate or fair share of the national acreage allotment.

In States and counties where the unwanted or surplus acreage would exceed the reduction in the national acreage allotment, there would be no cut in allotments at the farm level. A reduction in the national allotment would have to exceed the amount of unwanted or surplus acreage available within a State before the individual producer would be affected.

I would like to show a table showing the 1964 underplanting of cotton allotments and submit it for the record.

Senator JORDAN of North Carolina. Showing what?

Mr. BRACEY. The 1964 underplanting of cotton allotments.

Senator JORDAN of North Carolina. The underplantings?

Mr. BRACEY. The underplantings, yes, in other words, after this adjustment we will go back to Alabama, for example—they released 14.2 percent of their acreage which was unwanted, and on top of that——

The CHAIRMAN. That is unwanted by those to whom it was allotted?

Mr. BRACEY. Correct, sir. And they underplanted their allotment by 13 percent on top of that. In other words, they did not want 14 percent, in the first place, and then in the second place 13 percent was not planted. This is the exhibit that we would like to show this with.

Senator RUSSELL of South Carolina. Those were not accumulated—you do not mean that the 27 percent of their allotment was not planted—you mean after the release and reapportionment that 13 percent was not planted?

Mr. BRACEY. This is correct.

Senator TALMADGE. And if they did not plant it, did not contribute to the surplus.

Mr. BRACEY. You are right, Senator Talmadge; it did not. The point that we are trying to make——

The CHAIRMAN. What the point is that he is trying to make is that it should have gone to Missouri and California and Arizona.

Mr. BRACEY. This is not part of it.

The CHAIRMAN. I know exactly what it is. When release and reapportionment was enacted we attempted to provide a method whereby we could retain the small amount of acreage that was left to us.

Mr. BRACEY. The point that we would like to make here is that a cut in the national allotment would mean—let us assume that it would be 15 percent. In the State of Missouri and several other States and counties and areas, Tennessee included, every producer in these States would take a minimum of a 15-percent cut in his

allotment. In these other States that I mentioned, such as Alabama, Georgia, and some others, and North Carolina, the individual producer would take no cut at all. This is the point we are trying to make. We are saying that it is inequitable to reduce the national allotment unless all individual producers are reduced at the same time.

The CHAIRMAN. You may make it a part of the record.
(The table referred to follows:)

1964 underplantings of cotton allotments

State	State allotment	Percent planted	State	State allotment	Percent planted
Alabama.....	969,459	-13.0	Missouri.....	356,635	-0.8
Arizona.....	331,756	+ .3	New Mexico.....	171,704	+ .2
Arkansas.....	1,327,747	-4.0	North Carolina.....	461,203	-14.4
California.....	737,239	+ .3	Oklahoma.....	751,358	-18.3
Georgia.....	836,783	-22.8	South Carolina.....	685,805	-20.0
Louisiana.....	567,323	-6.0	Tennessee.....	547,182	-6.5
Mississippi.....	1,550,709	-3.4	Texas.....	6,838,347	-9.0

Mr. BRACEY. Each year since the release and reapportionment provision was enacted in 1959 some 1.5 million "bonus" acres have been allocated to individual producers in some areas of the Cotton Belt. A great many producers have actually received and are still receiving cotton allotments in excess of the planting histories on their farms prior to production controls. Without exception the "bonus" acreage is over and above the individual producer's proportionate or fair share of the national acreage allotment. Where producers receive "bonus" allotments they do nothing whatsoever to earn price support protection. Yet, thousands of them now qualify as domestic allotment producers and actually get higher price support protection than do other producers who were forced to absorb severe acreage restrictions.

In effect, a reduction in the national allotment would subtract the "bonus" acreage from the allotments of producers who happen to live in areas where such acreage is not available. Early in January of this year the U.S. Department of Agriculture officially recognized the abuses now prevalent under the release and reapportionment provision. As a result on January 25, 1965, State offices issued directives to all counties setting limits on amounts of "bonus" acreage that could be allocated to an individual producer. Exhibit No. 4 would have limited such "bonus" acreage to the higher of 33 acres or 50 percent of the cropland on a farm beginning with the 1965 crop. This directive stayed in effect exactly 3 days. Exhibit No. 5 issued on January 28, 1965, changed the 50 percent of cropland limit to 75 percent. Now some producers are permitted to receive "bonus" allotments equal to 75 percent of the total cropland on their farms, and at a cost ranging from \$50 to \$200 per acre to the taxpaying public.

The CHAIRMAN. How do you figure that, the \$50 to \$200 per acre to the taxpaying public?

Mr. BRACEY. We figure, sir, \$50 would be the minimum, if it makes a bale of cotton.

The CHAIRMAN. Suppose that we transfer it to Missouri where you make a bale and a half, or 2 bales, or to California where you make 3 bales.

Mr. BRACEY. Well, of course, it would go up.

The CHAIRMAN. Of course, it would; certainly, it would. The cost would be increased rather than decreased.

Mr. BRACEY. If we had the proper allocation, in the first place, we would not have this problem.

The CHAIRMAN. You mean not allocated at all?

Mr. BRACEY. In other words——

The CHAIRMAN. In other words, keep on decreasing as the farmer decides not to plant—transfer it to no one—just let it go?

Mr. BRACEY. Let it go.

The CHAIRMAN. Is that your suggestion?

Mr. BRACEY. Yes, sir.

The CHAIRMAN. That may have some sense.

Mr. BRACEY. We would, certainly, like for it to disappear, so to speak, if a man does not want to grow it.

How can a provision be justified that gives some producers cotton allotments equal to 75 percent of the cropland on their farms while other producers are forced to plant within allotments that have been reduced 40 percent since 1960?

We have been reduced 40 percent in Missouri on an individual farm basis.

Senator BASS. Wait a minute—what was that statement, that your acreage on an individual farm basis has been reduced 40 percent?

Mr. BRACEY. Yes, sir; in many, many cases—I would say in two-thirds of them.

Senator BASS. How is that?

Mr. BRACEY. Well, we had a 16-million-acre minimum national allotment beginning in 1959. It was in effect in 1959 and 1960. And in these 2 years, under the old law, what we called the A and B program, a producer was permitted to go 40 percent above his base level. Two-thirds of our farmers did go 40 percent above their base allotment. Today we are back on the 16-million basis, so these folks who went up 40 percent now have taken a reduction of 40 percent since then.

The CHAIRMAN. Not on the 16-million-bale allotment.

Mr. BRACEY. No, sir; but on their 1960 allotments it was affected that much.

Senator JORDAN of North Carolina. They moved it up 40 percent and came back 40 percent.

The CHAIRMAN. That was no loss.

Senator JORDAN of North Carolina. That is where it is.

Senator BASS. They are not raising it or lowering it—it is like the hemline of a woman's skirt, she raises it and lowers it, but she still has the same dress.

Senator JORDAN of North Carolina. I do not know about that. [Laughter.]

The CHAIRMAN. Well, it remained within the 16-million-acre allotment. They would not have lost anything. If they had remained in it, except they saw greener fields by taking this planting under B rather than under A, under the law that then existed.

Mr. BRACEY. Yes, sir.

The CHAIRMAN. And under that law, as I recall, the history was not lost to those who made the transfer—they were still entitled, at least, to their acreage base under the 16-million-plus allotment.

Mr. BRACEY. It was to our advantage to plant it, and we did.

The CHAIRMAN. Well, first, you did—you did, certainly you did—but you did not lose anything.

Senator BASS. You did not lose any from what you started with.

The CHAIRMAN. Of course not.

Mr. BRACEY. On an individual basis we did.

Senator BASS. As a result of the change in the program.

Mr. BRACEY. That is right.

The CHAIRMAN. You knew that the program was not going to continue.

Mr. BRACEY. Well, again, if you will permit me, the point that we are trying to establish is that we have on an individual farm basis reduced 40 percent since 1960, whether it was a change in the program or not—we have actually done it—we have been forced to do so. Other people, on an individual farm basis, are actually growing more cotton than they did in 1960. This is the point we are trying to establish. And we are saying that if anybody is going to be cut, everybody ought to be cut. And we are, certainly, not recommending a cut to anybody.

Senator MONTROYA. Since 1958 how much were you reduced?

Mr. BRACEY. We are on the same minimum.

Senator MONTROYA. Since 1958, not 1960.

Mr. BRACEY. The 1958 act established the 16 million minimum national acreage allotment, so we have been there ever since——

Senator MONTROYA. You are up above 1958?

Mr. BRACEY. In 1958 the Secretary set the acreage allotment above the minimum, as I recall.

Senator MONTROYA. It was 17 million, was it not—17 million plus?

Mr. BRACEY. 17 or 18 million, I do not recall.

The CHAIRMAN. Seventeen plus million.

Mr. BRACEY. That was in 1961.

The CHAIRMAN. Yes. Secretary Benson set it at over 18 million for 1961.

Mr. BRACEY. That is right.

The CHAIRMAN. That is right. And that is when the law that we had enacted in 1958 did not proceed as we expected, that is, it did not work as we contemplated. We intended a lower price, and a higher acreage.

Mr. BRACEY. Yes, sir, at least in part.

The CHAIRMAN. So as to compete with the world markets, but when an additional 2 million acres of cotton was coupled with an increase in price, why that caused our trouble.

Mr. BRACEY. Yes, sir.

We recommend: for the cotton producer, the cotton industry, and the economy of the Nation, we recommend a 4-year program that would:

1. Continue the 16-million-acre minimum national allotment.
2. Provide price support loans to producers at not less than 65 percent of the parity price of cotton.

The CHAIRMAN. That is the law now.

Mr. BRACEY. Yes, sir.

3. Provide a domestic equalization payment in an amount that will continue the current price level to domestic textile mills—language to be written into the law that would insure a payment rate for domestic

consumption that would bear the same relationship to the support level as the payment for 1965—66 bears to the 1965 support rate.

The CHAIRMAN. Will you explain that?

Mr. BRACEY. I will explain it by this: Say if you reduce the price support to the producers to 28 cents per pound, then your payments to the mill, also, would be reduced by 1 cent per pound to keep just the same relationship; in other words, to keep the mills at 23.5 cents—that is what we are saying.

The CHAIRMAN. What would you do about the foreign sales?

Mr. BRACEY. This would come under number four here.

The CHAIRMAN. Please proceed.

Mr. BRACEY. 4. Provide authority and direction for the Secretary of Agriculture to operate an export sales program—both competitive bid sales and PIK—in compliance with the intent and purpose of section 203 of the Agricultural Act of 1956.

Senator TALMADGE. Do you mean by that, I presume, to sell the cotton at whatever the going price is overseas?

Mr. BRACEY. In effect, that is what we mean; yes.

Senator JORDAN of North Carolina. May I ask a question here, Mr. Chairman?

The CHAIRMAN. Yes.

Senator JORDAN of North Carolina. I understood you to say a few minutes ago—and correct me if I am not correct in this—that one of the reasons that we did not sell more cotton in export was because the Secretary established the sales price for a year ahead.

Mr. BRACEY. This is one reason; yes, sir.

Senator JORDAN of North Carolina. Of course, we know from the sales to foreign buyers that they will buy all that they can under the announced price. What is left over they buy it from the United States—that is about what is happening.

The CHAIRMAN. There is another thing, they do not buy it because they do not have the dollars. That is another reason.

Senator JORDAN of North Carolina. Not altogether that.

The CHAIRMAN. That is one of the main reasons why, I believe, that we lost out on the sales to foreign buyers. They will not buy it because of the lack of dollars. They will buy when they can use the soft currencies other than U.S. dollars.

Senator JORDAN of North Carolina. One of the reasons, I am convinced, is that when you set a price at 23.5 cents, sales by other countries will be made at 23.35 or at 23.40. You know that 10 points will get 100,000 bales of cotton.

Mr. BRACEY. It could, yes, sir.

Senator JORDAN of North Carolina. At the same quality. And I am talking about American cotton being that much better is getting to being quite arguable. It is a matter of machine picked against hand picked cotton, and so forth. But I will not argue that point right here. There is quite a debate on that right now.

Mr. BRACEY. We are certainly urging flexible price authority in both the pricing and the program itself.

Senator JORDAN of North Carolina. Do you think that the Secretary ought to be permitted under whatever plan there is to trade day-by-day in cotton in the world market?

Mr. BRACEY. Absolutely. Section 3 of the Agricultural Act states that he should participate. We nullified that section by the passage of

the 1964 act, and in fact—we have nullified it because of the cost factor. He cannot do it in export unless he does it in the domestic market, and he cannot do it in both.

Senator JORDAN of North Carolina. Thank you.

Mr. BRACEY. 5. Provide acreage and price choices to individual producers to make possible realistic alternatives for reducing the surplus.

Senate bill 2110 would, with amendments to provide the domestic equalization payment in item No. 3 and effective incentives to encourage voluntary acreage reductions in item No. 5, do all that needs to be done in the way of legislative authority.

The domestic allotment or acreage reduction provision could obtain necessary reductions in planted acreage if the payment rate were authorized to go as high as 25 percent above the loan level, and if the special protection provided for the 15-acre producer were oriented toward reduced rather than continued plantings. We favor special protection for the small producer, but we see no reason at all why he should be forced to grow cotton which we certainly do not need in order to qualify for program benefits. If the 15-acre producer were permitted to reduce or abandon his plantings altogether and still receive the domestic allotment it would (1) reduce production, (2) decrease program costs to the Government, and (3) even more importantly, give the small allotment holder an opportunity to adjust his operation to suit his individual situation.

Small producers should be identified as those receiving a certain portion of their income from farming in order to disqualify "hobby" farmers and other nonfarmers who now are eligible for special treatment under the small farm provision. Special treatment should be limited to one farm unit or contract to prevent holders of several contracts from receiving special benefits on each of them.

In addition to legislation dealing directly with cotton, we urge the adoption of a long-term cropland adjustment program. Such a program is needed to conserve soil and water resources and to provide more latitude to the producer in making production adjustments.

We are opposed to the sale and lease of allotments as it would change the entire concept of acreage allotments. It would in effect base allotments on the financial condition of producers, intensify inequities in distribution of allotments, aggravate the supply management program, and put additional costs on the taxpaying public.

In the administration of the cotton program we recommend that all special and self-serving (except for small farmer) features be eliminated or adjusted to insure equitable treatment to all producers. To get back to the original concept of acreage allotments and price supports we urge (a) that proper adjustments be made for production increases due to skip-row plantings; and (b) that reasonable limitations be placed on acreage allotments obtained through the release and reapportionment provision.

We endorse the proposed changes in skip-row plantings rules for cotton as listed by the U.S. Department of Agriculture in the Federal Register on April 22, 1965. We urge, however, that the Department should make full allowances for the increased yields rather than the proposed partial adjustments.

Exhibit No. 6 (attached) shows that adjustments for increases from skip-row plantings should be considerably higher than the 30-percent

allowance for a 2-by-2 pattern, for example, as proposed by the Department.

The CHAIRMAN. Do you have skip-row planting in Missouri?

Mr. BRACEY. We do some; yes, sir. And the ones that do, like it, but we do not think that it adds up in the face of the supply-and-demand situation.

The CHAIRMAN. You do not get any increased production?

Mr. BRACEY. Oh, yes; absolutely.

The CHAIRMAN. Please proceed.

Mr. BRACEY. As the skip-row practice is a matter of personal choice on the part of the individual producer, we urge that there should be no element of encouragement in the choice to continue a practice that nullifies the intent and purpose of acreage controls, and which if permitted to continue, would in a short period of time force all commercial producers to adopt this abnormal farming practice regardless of their individual situations.

Limitations on allotments through release and reapportionment should be provided to:

a. Reapportion released acreage only within county or origin; and
b. Apportion released acreage on yield basis, with adjustments reflecting average differences between releasing and receiving farms; and that is to prevent these lean acres going to the fat acres, so to speak.

c. Limit the amount of total allotment on a farm receiving released acreage to the higher of 33 acres or 50 percent of cropland. This is what the Department said originally.

With the legislative and administrative changes which we are recommending, we could look forward to brighter days for cotton producers and the entire cotton industry.

We have one other miscellaneous exhibit that we would like to put into the record, with your permission. This is a digest of the Agricultural Act of 1958. We think that this looks good as compared with some of the things that we have heard proposed. We would like to make it a part of the record.

The CHAIRMAN. Without objection that will be done.

(The document referred to is as follows:)

AGRICULTURE ACT OF 1958

Acreage: 16 million acres. Would maintain farm allotments at current level.

Production: 13.5 million bales; 1.5 million bales less than 1964 crop if USDA exercises existing authority to adjust skip-row plantings, and takes action to prevent abnormally high allotments through operation of release and reapportionment. No legislative action is required.

Price: Likely be at least 30 cents to all producers as there is no authority to divide producers into classes or categories. All producers would plant regular allotments and receive same price support.

Offtake:

Domestic.—Probably near 8.5 million bales, slightly less than 5-year average immediately preceding so-called one-price program—about 1 million bales less than maximum that could be expected under continuation of current program.

Export.—Probably at least 6 million bales, slightly higher than 5-year average immediately preceding so-called one-price program, and some 2 million bales higher than could be expected under continuation of current program.

Total offtake.—14.5 million bales.

Farm income: \$2,272 million (USDA estimate).

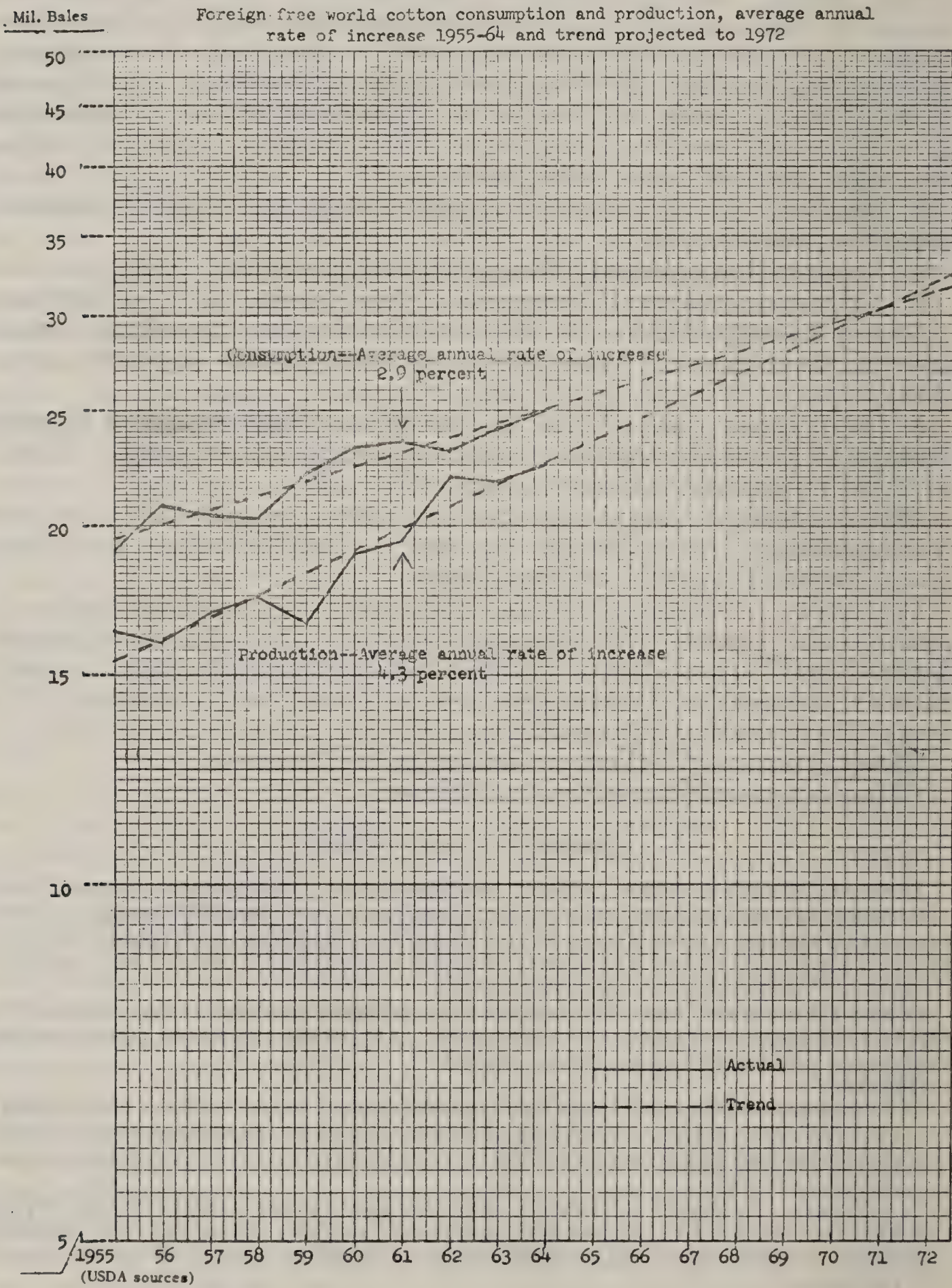
Cost to Government: \$350 to \$450 million (based on 6-million-bale exports and previous experience, if exports were less, cost would drop proportionately).

NOTE.—If no cotton legislation is enacted, the Agricultural Act of 1958 will become effective with the 1966 cotton crop.

The CHAIRMAN. I see that you have some graphs attached to your statement and they will be made a part of the record at this point.

(The documents, entitled “Exhibit 1 through 6, inclusive,” follow:)

EXHIBIT No. 1



Prices of specified qualities and growths of cotton, monthly averages, generally prompt shipment, cost, insurance, and freight, Liverpool, 1962-63 to 1964-65

[In U.S. cents per pound]

Year and month	Middling 1 inch		Strict Middling 1½ inches						Extra long staple			
	U.S., Orleans- Texas	Pakistan, 289F Punjab SG	U.S., Memphis territory	Mexico	Syria	Iran	Nicaragua	Greece	Sudan		Peru, Pima No. 1 1½ inches	Egypt, Menoufi FG
									G5L	G5S		
1962-63:												
August-----	28.30	33.60	30.47	28.97	28.88	29.19	29.11	29.22	35.07	36.71	37.97	41.06
September-----	28.03	32.27	30.25	28.44	28.56	28.56	28.57	28.75	34.84	36.68	38.71	40.65
October-----	27.91	30.73	30.29	28.42	28.81	28.89	28.17	28.93	35.09	36.90	37.91	40.64
November-----	27.66	30.08	30.02	28.78	29.31	29.91	28.38	29.28	35.24	36.82	38.64	40.62
December-----	27.89	28.55	30.61	29.62	29.39	30.08	29.13	29.35	35.33	36.80	38.84	40.65
January-----	28.16	28.92	31.18	29.85	30.29	30.64	29.65	30.19	35.34	36.81	39.07	40.67
February-----	28.29	28.03	31.68	29.69	30.91	30.89	29.39	30.82	34.87	36.68	39.71	40.65
March-----	28.60	28.98	31.96	29.46	30.47	30.36	29.23	30.64	34.84	36.66	39.70	40.63
April-----	28.59	28.82	31.98	29.13	29.90	29.83	29.25	30.26	35.18	36.70	38.80	41.14
May-----	27.26	29.47	29.32	28.99	29.07	28.94	28.66	29.36	35.26	36.87	37.91	40.67
June-----	27.21	28.64	29.40	28.98	29.15	29.19	28.65	29.23	35.25	37.55	37.52	40.92
July-----	27.15	28.27	29.46	28.96	28.88	29.02	28.44	28.90	35.30	37.73	37.74	40.91
Average-----	27.92	29.70	30.55	29.11	29.47	29.63	28.89	29.40	35.13	36.89	38.54	40.77
1963-64:												
August-----	26.80	28.57	29.16	29.18	28.67	28.70	28.31	28.65	35.19	37.70	38.55	41.56
September-----	26.58	28.25	28.98	29.48	28.58	28.57	28.02	28.39	35.15	37.66	39.54	41.84
October-----	26.54	28.21	28.98	29.27	28.45	28.62	27.94	28.34	35.78	38.50	39.14	43.35
November-----	26.58	28.50	29.17	29.19	29.50	29.32	28.20	29.12	37.40	39.64	39.53	44.52
December-----	26.66	29.25	29.29	29.31	30.02	29.87	28.47	29.67	37.31	40.03	39.60	44.83
January-----	26.77	29.11	29.46	29.75	30.43	30.02	28.61	29.96	37.66	40.57	40.44	44.82
February-----	26.93	28.97	29.74	29.73	30.61	30.39	28.73	30.26	37.96	40.81	41.70	44.83
March-----	27.05	28.57	29.91	29.70	30.83	30.83	28.89	29.82	39.03	-----	43.61	45.68
April-----	27.17	27.35	30.14	29.58	28.86	30.90	29.02	30.20	43.96	-----	47.26	48.27
May-----	27.14	28.22	30.11	29.75	28.86	30.90	29.09	30.83	45.58	50.43	47.20	49.44
June-----	26.94	27.12	29.82	29.91	28.84	29.71	29.05	30.88	45.78	50.43	46.78	49.40
July-----	26.86	27.37	29.52	29.43	28.82	29.33	28.74	30.11	45.69	51.10	46.53	48.97
Average-----	26.84	28.29	29.52	29.52	29.37	29.76	28.59	29.69	39.71	42.69	42.49	45.63
1964-65:												
August-----	26.94	26.75	29.62	29.20	29.27	29.16	28.48	29.62	45.01	51.11	47.80	48.84
September-----	26.86	26.81	29.60	29.40	29.35	29.02	28.43	29.59	44.58	51.84	47.45	50.45
October-----	26.89	27.19	29.65	29.30	29.18	29.33	28.42	29.51	44.31	50.75	46.73	52.08
November-----	26.94	27.59	29.74	29.09	29.00	29.47	28.10	29.56	44.20	50.03	46.44	52.09
December-----	27.14	29.40	29.94	29.15	29.19	29.42	28.21	29.84	44.19	48.85	44.54	52.68
January-----	27.27	29.37	30.01	29.14	29.52	29.08	27.86	29.89	44.19	48.41	43.47	52.68
February-----	27.40	31.37	30.06	29.36	29.71	29.29	27.49	30.06	43.26	47.77	42.96	52.77
March-----	27.42	32.03	30.04	29.33	29.62	29.60	27.42	30.03	40.15	46.92	40.48	52.72
April-----	27.49	33.07	30.12	31.44	29.59	29.71	27.80	30.06	40.19	46.13	40.75	52.77

EXHIBIT No. 3

Upland cotton: Summary of "unwanted" or released and reapportioned allotment acreage, 1964

	Released acreage			Reapportioned acreage		
	Original allotment	Total acres released	Acres surrendered to State committee	Number of farms	Total acres reapportioned	Acres apportioned by State committee ¹
Alabama.....	969,059	137,240	18,106	30,216	135,913	17,897
Arizona.....	331,750	1,256		421	1,256	
Arkansas.....	1,327,048	47,581	9,572	11,900	47,358	9,572
California.....	737,039	5,049	46	2,334	5,000	
Florida.....	35,604	5,418	742	888	5,378	742
Georgia.....	835,276	134,679	45,466	16,424	131,663	45,347
Illinois.....	2,995	540		42	540	
Kansas.....	22					
Kentucky.....	7,192	241		189	238	
Louisiana.....	567,227	49,470	20,709	11,048	49,308	20,702
Mississippi.....	1,550,208	93,016	28,996	26,068	92,342	28,755
Missouri.....	356,550	1,200	87	651	1,184	87
Nevada.....	3,522	32		11	32	
New Mexico.....	171,403	2,952		1,137	2,946	
North Carolina.....	460,902	106,758	37,228	13,765	104,185	37,188
Oklahoma.....	751,158	99,298	22,461	9,510	97,917	22,060
South Carolina.....	685,405	88,225	22,713	14,023	84,982	22,669
Tennessee.....	547,174	19,937	2,743	12,877	19,860	2,710
Texas.....	6,832,347	725,728	267,557	63,474	715,187	265,237
Virginia.....	17,203	1,826	98	802	1,821	98
United States.....	16,189,084	1,520,446	476,524	215,780	1,497,110	473,064

¹ Allocation to counties of the allotments surrendered to State committee from other counties for reapportionment to farms.

Source: PPAD, ASCS, USDA.

EXHIBIT No. 4

U.S. DEPARTMENT OF AGRICULTURE,
Columbia, Mo., January 25, 1965.

To : Chairmen, ASC county committees (cotton counties only).

RELEASE AND REAPPORTIONMENT OF COTTON ACREAGE ALLOTMENTS

1. PURPOSE

To furnish dates and guidelines for reapportioning released cotton acreage to farms.

2. DATES

- A. The closing date for releasing cotton allotment will be March 1, 1965.
- B. The closing date for making application for released allotment will be March 1, 1965.
- C. The closing date for reapportioning released allotment will be March 10, 1965.

3. GUIDELINES

A. A written application for an increase in the farm allotment must be on file in the county office by the closing date. A verbal request made within the time limit may be validated by subsequently filing a written request where it is conclusively shown that the applicant was prevented from making a written request within the time limit due to conditions beyond his control.

B. The effective allotment for a farm to which released allotment is reapportioned shall not exceed the larger of 33 acres, or 50 percent, of the cropland for the farm. Further, the effective allotment shall not exceed the cropland on any farm.

C. The acreage reapportioned to committeemen's farms shall not be greater in proportion to the total acreage reapportioned than the original allotment

on such committeemen's farms is to the total original allotment on all farms receiving reapportioned acreage. For example, if the original allotment on applicable committeemen's farms receiving reapportioned acreage is 10 percent of the original allotment on all farms receiving reapportioned acreage, the applicable committeemen's farms shall be limited to a maximum of 10 percent of the total reapportioned acreage. Committeemen's farms for the purpose of applying this guideline means farms owned, operated, or controlled by county and community committeemen or employees of the county office.

The reapportionment of cotton allotment to farms of county and community committeemen and county office employees shall be reviewed by farmer fieldmen.

EXHIBIT No. 5

U.S. DEPARTMENT OF AGRICULTURE,
MISSOURI STATE ASCS OFFICE,
Columbia, Mo., January 28, 1965.

To: Chairmen, ASC county committees (cotton counties only).

GUIDELINES FOR REAPPORTIONMENT OF COTTON ACREAGE ALLOTMENTS

1. PURPOSE

To furnish a revision in guidelines for reapportioning released cotton acreage allotment.

2. REVISION

Shown below is the text of a telegram from our Washington office. Please cross reference paragraph 3B of notice 1-CN 65-12 to show this revision.

"B. The effective allotment for a farm to which released allotment is reapportioned shall not exceed the larger of 33 acres or 75 percent of the cropland for the farm. Further, the effective allotment shall not exceed the cropland on any farm.

"Please advise counties of this change and incorporate in overall standards and guidelines established by the State committee.

"Handbook 1-CN is being amended to include procedure covered by notice.

"If there are no changes in the law pertaining to release and reapportionment of allotments, it is likely that the above percentage will be reduced to 66.7 percent for the 1966 crop."

EXHIBIT No. 6

Increases in yields of cotton per allotted acre from 2 by 2 skip-row planting pattern:

Georgia Experiment Station, Experiment, Ga., shows a 3-year average increase of 39 percent.

Delta Branch Experiment Station, Stoneville, Miss., shows a 3-year average increase of 49 percent.

Arizona Research Centers show:

Marana station: 3-year average increase of 74 percent.

C.R.C. station: 3-year average increase of 62 percent.

Yuma station: 3-year average increase of 61 percent.

Red River Valley Experiment Station, Bossier City, La., shows a 2-year average increase of 58 percent.

Auburn University Experiment Station, Auburn, Ala., shows a 3-year average increase of 45 percent.

The Chairman, is it your judgment that if the 1958 act had been administered as Congress intended, that we would not be in the trouble that we have today?

Mr. BRACEY. In our judgment, as to agricultural act, administered the way it has been, plus an effective export program, if that had been done, we would not be in this situation. I do not believe that the Con-

gress meant for the Department to get into skip-row practices. And I know that from being a party to the agreement, that no one ever thought that we would see release and reapportionment handled in the way it has been handled.

The CHAIRMAN. Of course, the farmers do the best they can to make both ends meet.

Mr. BRACEY. We have to.

The CHAIRMAN. That is right. I do not blame them. I have often said that they are so smart that every one of them ought to be a lawyer. They take their pencil and paper and figure out the best way to come out under the law, irrespective of the cost to the Government, and that is their privilege.

Are there any questions?

Senator MONTOLYA. What do you estimate the cost of this program would be, as outlined here in your plan?

Mr. BRACEY. Between \$650 and \$750 million. I base this estimate on the figures that we got from the Department of Agriculture. The Department of Agriculture did not endorse it, do not misunderstand, but they did run some figures on it.

Senator MONTOLYA. Did the department of Agriculture collaborate with you on arriving at these figures?

Mr. BRACEY. The cost figures?

Senator MONTOLYA. Yes, sir.

Mr. BRACEY. Yes, sir; we put down the points and asked them to give us the cost figures, and they did it for us.

Senator MONTOLYA. Will you pinpoint, with a little more detail, the kind of flexibility that you would want for the Secretary of Agriculture in the export market?

Mr. BRACEY. Yes, sir. No. 1, we want to untie, so to speak, the domestic and export sales policies, to leave the Secretary free to do whatever he needs to do in the export market, if it means going to 20 cents or to 18 cents or wherever it is to sell cotton, we would like for him to have the authority to do it, without being forced to go back and make the same adjustment in the domestic market, whether it is justified or not.

Senator MONTOLYA. To clarify your statement, would it be correct to say that you are supporting authorization for the Secretary of Agriculture to have flexibility in his support prices for exports of cotton?

Mr. BRACEY. Primarily, yes.

Senator MONTOLYA. Are you contending that by resorting to this flexibility that the Secretary should be given such authority to sell the cotton for less than he would pay for it domestically?

Mr. BRACEY. Yes, sir; the cheapest way out.

Senator MONTOLYA. What is your purpose, to develop a world market, or to reduce the surplus?

Mr. BRACEY. It is both. We could now be in the world market somewhere in the neighborhood of 7 million bales annually. This year we are going to be lucky if we get 4.2 million bales. I think that the Department of Agriculture estimates 4.5 million bales. If we had our historic share, so to speak, of the world market, we would be exporting this year somewhere between 6 and 7 million bales of cotton instead of slightly more than 4 million bales.

Senator BASS. Will you yield?

Senator MONTROYA. Yes.

Senator BASS. If this happened and the Secretary had this authority, without any fear of how much he is losing on the cotton, and would just go in and sell it at competitive prices, what would happen to the world price of cotton?

Mr. BRACEY. We do not think anything would happen, particularly, Senator Bass. Actually, after the world finds out what we are going to do and they find out that we mean business they will, probably, let us sell some cotton. This is what happened before.

Senator BASS. If you give me an unlimited supply of merchandise, and I do not care what I am selling it for, so long as I am underselling the other man, it looks to me like it would shoot the market all to pieces.

Mr. BRACEY. Of course, it would have to be handled with some discretion. You just could not go in there and open it up overnight. We did this in 1957, if you will recall, after the 1956 act was passed.

Senator BASS. Wait just a minute. What if we give the producer this section—give the producer the flexibility and say, "Now, boys, go and shoot at the world market—we will give you a separate allotment and we will let you sell it at whatever price you want to sell it for."

Mr. BRACEY. Well, the producer, Senator Bass, is not in a position to market his cotton in the world markets.

Senator BASS. Why not?

Mr. BRACEY. As the Government is.

Senator BASS. Why not?

Mr. BRACEY. Well, it is a cumbersome and complicated thing. We learned that last year.

Senator BASS. These cotton people can sell it. They would like to go into this market and handle it.

Mr. BRACEY. It might not be complicated from their point of view, but from the farmer's point of view with a few bales of cotton, it is entirely different. I would say, for example, that the people in California would not have the problem that they would have in Tennessee. I do not know how Tennessee and Missouri and Alabama and Georgia farmers would get into it to any extent. They are not geared to do it.

Senator BASS. You mean that they could not produce it for that money, is that what you are saying?

Mr. BRACEY. This is one reason. And the marketing system itself does not lend itself to, say, the 15- or 20-bale producer.

Senator BASS. Do you produce cotton yourself?

Mr. BRACEY. Yes.

Senator BASS. What if the support price went down to 22 cents a bale, would you go out of the cotton business?

Mr. BRACEY. If that is all that I got for it, I would have to go out.

Senator BASS. You could not produce it for that?

Mr. BRACEY. No, sir. No one in our area can produce cotton and make a living at 22 cents.

Senator BASS. Are you mechanized?

Mr. BRACEY. As well as we can be. Weather permitting, we are completely mechanized.

Senator BASS. In other words, there is no way for the American farmer to compete in the international market in cotton?

Mr. BRACEY. No, sir, not at this point—not in cotton. I think that is something that we ought to face, because we cannot do it. We cannot produce at 22 cents and make a living and keep our farms going. We just cannot do it.

The CHAIRMAN. Now you are proposing to lower the world price so as to sell the cotton? Would your program envision the sale of all cotton to our own domestic mills at the same price that you sell abroad?

Mr. BRACEY. No, sir. We agree with your feeling that our domestic mills enjoy the best market in the world. And we feel that the 23.5-cents-a-pound price is all that we should expect the Government to pay for it, so to speak. And, certainly, it is all the farmers can afford to pay for it. And we ought to stay with the 23.5-cent price in the domestic market—make it positive, so that they can depend on it, and then get into the world market on a different basis entirely. In other words, go right back and do what we did after the 1956 act was passed when we sold cotton in the world market. That is the best example that we can point to of how this thing would work.

The CHAIRMAN. A moment ago you gave Senator Montoya, I think, the cost of this program which you envisioned as between \$600 and \$750 million.

Senator MONTOKA. \$750 million.

The CHAIRMAN. Yes, sir; Did you envisage freezing the price to the domestic mills at 23.5 cents?

Mr. BRACEY. Yes, sir.

The CHAIRMAN. And the support price at what?

Mr. BRACEY. At 28 or 29 cents, at that level.

The CHAIRMAN. At 28 to 29 cents level?

Mr. BRACEY. Yes, sir.

The CHAIRMAN. And then you, also, figured on selling the cotton on the world market at whatever it would bring?

Mr. BRACEY. Well, in these particular figures the Department used the goal of 5.5 million bales in the world market.

The CHAIRMAN. And to sell that number of bales——

Mr. BRACEY. They used 20 cents as the figure.

The CHAIRMAN. 20 cents a pound?

Mr. BRACEY. Yes.

The CHAIRMAN. Or a subsidy of between 8 and 9 cents a pound?

Mr. BRACEY. Yes.

The CHAIRMAN. And export about 5 to 6 million bales in round figures?

Mr. BRACEY. In the world market; yes sir, and it would be about 3 cents less than that in the domestic market.

Senator COOPER. Where would you expect to sell this increased amount—you said up to 7 million bales and the Department said 5 or 5½ million bales. Where would you sell this in the world?

Mr. BRACEY. It would just have to be offered with no strings attached. And anybody, any importing country would have access to it. And as I envision it, there would be no limitation as to who could buy it.

Senator COOPER. The chairman raised a rather important point. That is, that we do have some problems about exchange. What countries would you think would use the additional volume?

Mr. BRACEY. Japan, Asia, and, of course, Europe—those are the three primary markets for our exports. I believe that Japan buys more than any single country at this time.

Senator MONTOLA. Assuming that the Secretary, under a flexible authority, would sell at the world market buys for 20 cents, what would the cost be to the taxpayers of the United States at that price?

Mr. BRACEY. This is the figure I gave you a while ago. I believe it was calculated on 20 cents per pound in the export market.

Senator MONTOLA. And following through on a more extensive cotton war, for instance, in the world market, if the figures should decline to 18 cents, then the expense to the American taxpayers would mount tremendously?

Mr. BRACEY. Yes, sir; there would be an increase.

Senator MONTOLA. Is that right?

Mr. BRACEY. Yes.

Senator MONTOLA. And you are advocating this?

Mr. BRACEY. Yes, sir; but let me say one thing: if we do not sell this cotton the expense is going to be even greater, because we are accumulating all of these carrying charges every day, and the cheapest thing to do with the cotton is to sell it. I do not think that there is any argument on this, regardless of price almost.

Senator MONTOLA. When you reduce the price on the world market, you are, in effect, establishing a world market, a world market price for cotton, is that not correct?

Mr. BRACEY. I believe so; yes, sir.

Senator MONTOLA. So that if you are selling at 20 cents, wouldn't this tend to establish the world price for cotton at 20 cents?

Mr. BRACEY. Temporarily, at least.

Senator MONTOLA. Yes, sir; wouldn't we be forced to increase our subsidy to the mills. Under the present subsidy program, which we have allocated to the mills, the premise for establishing such a subsidy was to put them on a par with the world market price.

Mr. BRACEY. This has been a policy of the 1964 act. We still don't have a one-price system, because we do not consider the freight rate differentials and other costs between the domestic and the foreign points. We ignore them entirely.

Senator MONTOLA. The freight differential only comes to 1 cent a pound?

Mr. BRACEY. I think that you will find it is an average better than 3 cents a pound.

Senator MONTOLA. According to your statement, I think you stated that the freight differential on page 2—

Mr. BRACEY. That was between California and North Carolina, sir.

Senator MONTOLA. To price to the mills at Brussels, for example, you must add another 100 points or 1 cent per pound.

Mr. BRACEY. Yes, sir.

Senator MONTOLA. To cover the cost between the docks and the mill door?

Mr. BRACEY. That is after it is laid on the dock in Liverpool, though.

Senator MONTOLA. I see.

Mr. BRACEY. You have a charge from here to Liverpool to add to this.

Senator MONTTOYA. How many cents do you estimate then will account for the price differential between what the foreign producer or the foreign mill pays for the cotton on the world market and what the domestic mill pays here?

Mr. BRACEY. What is the difference now?

Senator MONTTOYA. Yes.

Mr. BRACEY. Almost 5 cents a pound.

Senator MONTTOYA. That is excluding the transportation?

Mr. BRACEY. No; that is including the transportation.

Senator MONTTOYA. 5 cents a pound?

Mr. BRACEY. At the mill door proposition. In other words, 5 cents difference, more or less, between the mill door in the United States and the mill door in Europe.

Senator MONTTOYA. So would it be safe to say that with the flexibility given the Secretary the cotton program advocated by you would cost the taxpayers approximately \$1 billion.

Mr. BRACEY. No, sir; the program as advocated in this statement of five points according to the Department's figures would cost between \$600 and \$750 million.

Senator MONTTOYA. That is at 20 cents per pound?

Mr. BRACEY. That is it.

Senator MONTTOYA. If it went below the 20 cents, it would cost more?

Mr. BRACEY. If you do not sell the cotton the carrying charges go up and you get the same end results, but this program for all practical purposes will cost about \$300 million less than the present program and would sell more cotton. This is what we are trying to point out.

Senator MONTTOYA. Thank you.

The CHAIRMAN. You stated a moment ago that you would want to freeze the differential, that is, the price to the mill.

Mr. BRACEY. To the domestic mills; yes.

The CHAIRMAN. At 23.5 cents. In order for the foreign mills to obtain cotton the same price as the domestic mills of 23.5 cents, what would we have to sell that cotton for to put them on the same basis? You mentioned 5 cents a pound.

Mr. BRACEY. Well, actually, the domestic mill now gets a price of 23.5 cents, but let us assume that they will have to pay another 100 points to get the cotton delivered to the mill door, so that it would be 24.5 cents. To the foreign mill in Europe—they are paying now as these exhibit figures indicate about 28.5 cents. There will be anywhere from 3.5 to 4.5 cents difference at this point.

The CHAIRMAN. But if we sell the cotton to the domestic mills at 23.5 cents, and put the foreign mills on the same basis as our mills, how much would we have to sell it for?

Mr. BRACEY. To them?

The CHAIRMAN. To them, delivered.

Mr. BRACEY. We would have to sell it in this country for, roughly, 20 cents a pound.

The CHAIRMAN. So that the difference between the price for this year that the domestic mills pay and that which the foreign mills pay is about 3.5 cents a pound?

Mr. BRACEY. Roughly that, I would say between 3.5 and 4.5 cents—it depends.

The CHAIRMAN. In other words, the domestic mill has an advantage?

Mr. BRACEY. Oh, certainly.

The CHAIRMAN. Over the foreign mills of about \$17.50 a bale?

Mr. BRACEY. We do not have a one-price system. This is what you made clear, very emphatically, several times.

The CHAIRMAN. I know. That would be the result, would it not, about \$17.50?

Mr. BRACEY. Yes, sir.

Senator BASS. What is the total of the production in the country at 29 cents—how much does a cotton crop run?

Mr. BRACEY. You mean in total dollars?

Senator BASS. Yes.

Mr. BRACEY. I do not have that figure at my fingertips here.

Senator BASS. Somebody ought to have it.

The CHAIRMAN. We will get it.

Senator JORDAN of North Carolina. There are 16 million bales.

Senator TALMADGE. There are 16 million bales.

Senator JORDAN of North Carolina. I cannot figure is up quickly.

Senator BASS. And it is at about \$150 a bale—how many do you produce?

Senator TALMADGE. 16 million bales.

Senator JORDAN of North Carolina. I will lend you a pencil.

The CHAIRMAN. We will figure that.

Senator BASS. It is about \$2 billion, something like that.

Mr. BRACEY. About \$2.2 billion.

Senator BASS. And then you talk about \$700 million cost to produce a crop, so far as the taxpayers are concerned; in other words, that is about 25 or 26 percent of the total income of cotton to come out of it?

Mr. BRACEY. A great big chunk of it is; yes, sir; but the cotton farmer, of course, excuse me, is not the total recipient of this money, so to speak, because it goes into the communities and to the economy—even gets back to Washington, I think. So the cotton farmer, apparently, is not the sole beneficiary here.

Senator BASS. I realize that this is spread throughout the economy. I realize that. I realize that some of it, eventually, gets back up here. We have to get a little back up here, too. In other words, the cotton business today is, at least, 25 percent a Government subsidy?

Mr. BRACEY. Yes, it is—at least that.

Senator BASS. And there is no way to do it, in your opinion; you cannot have anything else unless you just eliminate the cotton farmer—if you would eliminate him, all right, but if you did not do that, this would be it, is that not right?

Mr. BRACEY. This is true—this is true, generally, about agriculture. If you pull the Government out of agriculture, you would almost eliminate, for all practical purposes, the farmer—everything he purchases has gone up in price and his price has gone down. Somebody has to make up the difference so that he can stay in business. And the only somebody that we can turn to is you all, to the Congress and to the Government for help so that we can stay in business.

The CHAIRMAN. I have been on this committee 28½ years, and the cotton farmer always has been in trouble except during wars, and so forth.

Mr. BRACEY. He has always been in trouble.

The CHAIRMAN. I do not know of any year where he has not been in trouble. I figured out here, roughly, that the gross sales of raw cotton is about \$2,400 million. That would be about 25 percent right.

Are there any further questions? If not, we thank you very much, and will you submit for the record your recommendations?

Mr. BRACEY. Thank you, Mr. Chairman and members of the committee. We will submit our recommendations.

(The recommendations are as follows:)

1. Amend S. 2110 as follows:

(a) Change the figure "15" in line 3 on page 30 to the figure "25".

(b) Add a new section 203 at the end of title II as follows:

"SEC. 203. Section 348 of the Agricultural Adjustment Act of 1938, as amended, is amended effective August 1, 1966, to read as follows:

" 'SEC. 348. In order to maintain and expand domestic consumption of upland cotton produced in the United States and to prevent discrimination against the domestic users of such cotton notwithstanding any other provision of law, the Commodity Credit Corporation, under such rules and regulations as the Secretary may prescribe, is authorized and directed for the period beginning August 1, 1966, to make payments in cash or through the issuance of payment-in-kind certificates to persons other than producers in such amounts and subject to such terms and conditions as the Secretary determines will provide upland cotton for domestic consumption at prices approximating the prices obtaining therefor during the 1965-66 marketing year.' "

The CHAIRMAN. I understand Mr. W. R. Phillips, of the Missouri Association of Elected Community & County Committeemen, wishes to file a statement, and instead of appearing in person, Mr. Jere Griggs, of the Tennessee Agriculture Council, will file a statement on cotton.

(The statements are as follows:)

STATEMENT OF W. R. PHILLIPS, JR., VICE PRESIDENT, MISSOURI ASSOCIATION OF ELECTED COMMUNITY AND COUNTY COMMITTEEMEN, NEW MADRID, MO.

Mr. Chairman, my name is W. R. Phillips, Jr. I live at New Madrid, Mo., and I appear here as vice president of the Missouri Association of Elected Community and County Committeemen. The general purpose of this association is to strengthen farm programs and improve the economic position of farmers.

At a recent meeting of our board of directors I was authorized and directed to come here to relay to you our thanks and sincere appreciation for your interest in and support for strong farm programs. Gentlemen, we are grateful for your support and cooperation.

In Missouri our cotton production is limited to seven counties in the southeastern part of the State. However, before production controls went into effect, it was the leading cash crop in our State. It now ranks second or third depending upon conditions for soybean and wheat production.

As cotton is grown only in a limited area of our State our association, being organized on a statewide basis, thought it would be well for us to report to you that we are in complete support of the position taken by the Missouri Cotton Producers Association on cotton programs.

We recommend:

1. That all special interest and self-serving (except for small farmer) features in the present program be eliminated or adjusted to insure equitable treatment to all producers and to get back to the original concept of acreage allotments and price supports.

(a) Skip-row plantings or the spreading of allotments over more than the producer's proportionate or fair share of the national acreage allotment cannot be justified without proper adjustments for production increases due to such plantings. To permit a special acreage allowance for skip-row planting simply means preferential treatment to producers with situations especially adaptable to this particular practice.

We endorse the proposed changes in skip-row plantings rules for cotton as listed by the U.S. Department of Agriculture in the Federal Register on April 22, 1965.

(b) The release and reapportionment provision should be adjusted to prevent abnormally high allotments and preferential treatment of producers in certain counties, States, and areas. All farmers should be treated alike under acreage allotments and price-support programs. Bonus allotments amount to preferential treatment and cannot be justified.

2. That necessary flexibility in export pricing policies and programs be provided with the urgency of the situation in mind to permit and direct the Secretary to do the things that must be done if we are to stand any chance of staying in the world market.

Legislation is required to untie domestic and export pricing programs. The current domestic price level should be maintained and export prices and programs should be permitted to fluctuate as circumstances and conditions warrant to the end that a fair historical share of the world market is insured for U.S. cotton.

3. That special protection be continued for the small producer, but that it should be directed toward reduced plantings. The small producer should be permitted to receive program benefits without being forced to grow cotton.

4. That a long-term cropland adjustment program should be enacted to conserve soil and water resources, and to provide more latitude to the producer in making production adjustments.

5. That the general recommendations of the U.S. Department of Agriculture on extension of programs for wheat and feed grains are sound, but we are opposed to (1) soybean production on diverted acreage, and (2) grazing of diverted acreage except under emergency conditions.

6. That all commodity programs be extended for a 4-year term to permit maximum program benefits and eliminate uncertainties among farmers.

(NOTE.—The proceedings at this point are printed in the record beginning on p. 1059.)

STATEMENT OF JERE GRIGGS, TENNESSEE AGRICULTURAL COUNCIL, HUMBOLDT, TENN.

My name is Jere Griggs. I live at Humboldt, Tenn., and I appear here as a director of the Tennessee Agricultural Council which represents cotton producers and cotton interest groups in the State of Tennessee.

In our recommendations for a cotton program which would give us a fighting chance to stay in both domestic and foreign markets, we are mindful of the pessimistic outlook for cotton and the President's statement calling for a reduction in cotton stocks and program costs.

In passing section 203 of the Agricultural Act of 1956, Congress made it crystal clear that the U.S. Department of Agriculture was to adopt pricing policies and take all actions necessary to reestablish and maintain a fair historical share of the world market for U.S. cotton. For all practical purposes the Agricultural Act of 1964 nullified this legislative directive to the Secretary because it requires the domestic price to be reduced exactly the same amount as the export price. Freight rate differentials and other differences between domestic and export markets are now completely ignored. The administration cannot be expected to pay the price that would be necessary to move our cotton in world markets at the desired volume so long as the law requires that domestic prices be adjusted the same as export prices, whether justified or not.

We do not believe that the domestic price of cotton should be raised. Neither do we believe we can afford to close our eyes to the need for making further downward adjustments in the world market that are necessary to discourage further expansion in foreign growths and the use of manmade fibers.

A reduction in the national acreage allotment would reduce land values and be a serious economic blow in farming communities. It would amount to a further transfer of our domestic acreage to foreign countries. Cotton producers cannot afford to make another supply adjustment for the entire world. In our view, such a request is without reason, and could not be justified until all other means to adjust stocks such as increased export sales have been exhausted, and all producers are given the same treatment under the acreage allotment program.

We recommend—for the cotton producer, the cotton industry, and the economy of the Nation—we recommend a 4-year program that would:

1. Continue the 16-million-acre minimum national allotment.

2. Provide price support loans to producers at not less than 65 percent or more than 90 percent of the parity price of cotton.

3. Provide a domestic equalization payment in an amount that will continue the current price level to domestic textile mills. (Language to be written into the law that would insure a payment rate for domestic consumption that would bear the same relationship to the support level as the payment for 1965-66 bears to the 1965 support rate.)

4. Provide authority and direction for the Secretary of Agriculture to operate an export sales program (both competitive bid sales and PIK) in compliance with the intent and purpose of section 203 of the Agricultural Act of 1956.

5. Provide acreage and price choices to individual producers to make possible realistic alternatives for reducing the surplus.

Senate bill 2110 would, with amendments to provide the domestic equalization payment in item No. 3 and effective incentives to encourage voluntary acreage reductions in item No. 5, do all that needs to be done in the way of legislative authority.

In the administration of the cotton program we recommend that all special and self-serving (except for small farmer) features be eliminated or adjusted to insure equitable treatment to all producers. To get back to the original concept of acreage allotments and price supports we urge (a) that proper adjustments be made for production increases due to skip-row plantings and (b) that reasonable limitations be placed on acreage allotments obtained through the release and reapportionment provision.

We endorse the proposed changes in skip-row plantings rules for cotton as listed by the U.S. Department of Agriculture in the Federal Register on April 22, 1965. We urge, however, that the Department should make full allowances for the increased yields rather than the proposed partial adjustments.

Limitations on allotments through release and reapportionment should be provided to:

- (a) Reapportion released acreage only within county of origin, and
- (b) Apportion released acreage on yield basis, with adjustments reflecting average differences between releasing and receiving farms, and
- (c) Limit the amount of total allotment on a farm receiving released acreage to the higher of 33 acres or 50 percent of cropland.

With these changes, we could look forward to expanding markets and a decrease in production thus obtaining the desired goals of a reduction in cotton stocks and program costs.

The CHAIRMAN. Thank you very much.

Without objection, a letter from Mr. Bruce N. Lynn, vice chairman of the Louisiana Cotton Committee, will be made a part of the record at this point.

(The letter referred to follows:)

BATON ROUGE, LA., *June 29, 1965.*

HON. ALLEN J. ELLENDER,
U.S. Senate,
Washington, D.C.

DEAR SENATOR ELLENDER: After hearing proposals from other cotton groups, and especially having studied the new Cooley bill (H.R. 9414), we are convinced more than ever that your bill, S. 2110, is the best approach to the cotton problem. S. 2110 offers a tried and true position. The implementation of the act of 1958 moved cotton from CCC stocks, as well as from the producer. We think you are wise in pursuing this course in an attempt to put cotton in a more favorable position.

There is much activity among producer groups, and I thought it necessary to indicate to you that the Louisiana Farm Bureau position is the same as when Paul, Philipe, Richard, and I appeared before your committee.

We in Louisiana feel confident that you will follow the basic principles of the act of 1958, as outlined in your bill, S. 2110.

Yours truly,

BRUCE N. LYNN,
Vice Chairman, Louisiana Cotton Committee,
Louisiana Farm Bureau Federation.

The CHAIRMAN. We will next hear from Mr. C. B. Ray. You may proceed.

**STATEMENT OF C. B. RAY, CHAIRMAN, B. F. SMITH, DAN DAVIS,
AND FREDERICK H. HEIDELBERG, COTTON PRODUCERS LEGISLA-
TIVE COMMITTEE**

Mr. RAY. Mr. Chairman and members of the committee, I am C. B. Ray and with me is Mr. B. F. Smith of Mississippi, Mr. Dan Davis of Texas, Mr. Rudolph Miller of California, Mr. F. H. Heidelberg of North Carolina, and Mr. Morgan Nelson of New Mexico. They will sit in with me. They will be here to answer any questions if there are some. And there are others in the room of our committee that I will introduce later, if permissible.

I am chairman of the cotton producers legislative committee, a group of representatives of the following cotton producers organizations: Agricultural Council of Arkansas; Arizona Cotton Growers Association; Delta Council of Mississippi; El Paso Valley Cotton Association, Texas; Imperial County Growers Association, California; Louisiana Cotton Producers Legislative Committee; New Mexico-Pecos Valley Farmers Association; North Carolina Cotton Promotion Association; Oklahoma Cotton Producers Legislative Committee; Plains Cotton Growers, Inc., Texas; Rolling Plains Cotton Growers, Inc., Texas; South Texas Cotton Improvement Association; Tennessee Agricultural Council; Uplands Cotton Growers, Inc., Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia; and Western Cotton Growers Association of California.

As you gentlemen know, the cotton industry is a basic pillar of strength to the whole U.S. economic structure. Millions of jobs, with the accompanying incomes, are dependent upon it, and billions of dollars are invested in its production and processing. There are about 91½ million people who depend upon cotton for a livelihood. Nearly one-third of these people live on cotton farms. The rest are workers and families of workers whose jobs are directly dependent upon cotton production, processing, and distribution. In addition, there are 11 million other workers and their dependents in allied industries.

FARMER'S CONTRIBUTION TO ONE PRICE

We supported the Agricultural Act of 1964 to help make cotton more competitive in the domestic market by a one-price system. To do this farmers have absorbed \$17.35 per bale or approximately \$250 million in lower prices in an effort to reduce Government costs and to bring about more competitive prices. This is our contribution to the one-price system. It is a very real one. It came off the top—out of our net profits. Further cuts in cotton farmer net income are out of the question. In the future, profitable cotton production in the United States, and a one-price system without dependence upon Government subsidy, can be made compatible as substantial reductions in costs are achieved through research and added technological gains.

Senator BASS. You say here that the Agricultural Act of 1964 helped to make cotton more competitive in the domestic market and so forth. Did it increase our export?

Mr. RAY. What is that?

Senator BASS. Did we increase our export sales? I thought they were reduced.

Mr. RAY. Mr. Smith can answer that.

Mr. SMITH. I think he said more competitive in the domestic market by a one-price system, Senator Bass.

Senator BASS. It did not make it more competitive in the export market. How much more did we consume in the domestic market?

Mr. SMITH. Well, we were losing cotton at about the rate of one-half million bales a year before this was enacted and this rate of loss has been stopped. The Department is estimating somewhere around 800,000 bales increase in domestic consumption this year, Senator Bass.

Senator JORDAN of North Carolina. May I ask you this question? You are stating here that all of this is sold on the one-price system; is that what you are saying in your statement?

Mr. RAY. Senator Jordan, I think as we unfold our testimony it will be made real clear that we can achieve competitive prices which will be the same to everyone, regardless of who our customers may be. And this is our purpose—this is our intent. We think this can be done. I believe that if we can develop it we can show very clearly that this is true; that we want a competitive marketing system.

The CHAIRMAN. Before you go into that, will you explain to us how the contribution of a quarter of a billion dollars was made by the growers—is that because of the lower price from 30.28 or 29 cents?

Mr. RAY. Yes, sir. This is what we have said here.

The CHAIRMAN. Can you spell that out for us—how did you reach the figure of \$250 million?

Mr. RAY. Mr. Chairman, that is simply a matter of arithmetic.

The CHAIRMAN. All right. Suppose that you place in the record at this point that arithmetic—you work out the arithmetic for us.

Mr. SMITH. Well—

The CHAIRMAN. Let him put that in the record. And show us that.

Mr. RAY. You would like for us to prepare that table?

The CHAIRMAN. As to how you reached the \$250 million.

Mr. RAY. We will be very glad to do so.

(The information follows:)

Before enactment of Agriculture Act of 1964 the price-support loan for cotton produced in 1963 was 32.7 cents per pound for Middling 1-inch cotton. Under the Agriculture Act of 1964 the price support loan for 1964 crop was 30 cents per pound and is 29 cents per pound Middling 1-inch for the 1965 crop. This is a cut of 3.47 cents per pound or \$17.35 per bale within the 2-year period. Assuming cotton production in 1965 at 15 million bales—15 million bales times \$17.35 per bale equals \$260 million.

Senator JORDAN of North Carolina. May I ask a question there? It went down from 32.47 to 29 cents. That is exactly the loan that the farmers get.

Mr. SMITH. That is what it is.

Mr. RAY. \$17.35 a bale and that is the way it calculates out.

The CHAIRMAN. These problems are brought about under the law enacted last year. I contended throughout debate that those who would suffer by this one-price system would be the producers, because the tendency would be more and more to reduce the price of the cotton to the producer so as to narrow the margin between what the farmer gets and what the cotton sells for.

Please proceed.

Mr. RAY. In view of the strong efforts to impose production payments upon cotton farmers, we feel that our views should be made clear. Those who advocate production payments to growers to achieve a one-price system are really asking growers to assume all of the risks and the whole load of potential sacrifices in order that every other group affected by the industry may prosper.

With a loan of 22 cents per pound and direct payment at 7 cents per pound, 24 percent of cotton farmers' gross income would have to come directly from Government appropriations. This would mean that \$600 million of growers' income would be in jeopardy each year—dependent upon congressional and administrative actions.

We must ask this question: Are growers to be forced to accept direct payments or give up competitively priced cotton domestically? If so, the record must be made clear. The risks attached to one-price cotton, coupled with direct payments are too great for growers to assume at this time.

EXPORT FAILURE CREATES CRISIS

The crisis in cotton has been brought about largely by the lack of an effective export program for over a decade. According to the National Cotton Council, our share of an expanded world market is about 7 million bales. The fact of the matter is except for a few years, the general intent of the act of 1956, which was to regain and maintain our fair share of the world cotton market has not been achieved.

The cotton export figures since 1956 clearly show this:

	<i>Bales</i>
1956-----	7, 600, 000
1957-----	5, 717, 000
1958-----	2, 787, 000
1959-----	7, 182, 000
1960-----	6, 632, 000
5-year average-----	5, 988, 000
1961-----	3, 315, 000
1962-----	4, 913, 000
1963-----	5, 660, 000
1964-----	4, 400, 000
4-year average-----	4, 581, 000

Senator JORDAN of North Carolina. Mr. Bracey testified awhile ago that under the previous law our exports were much greater, some years they were not, but was it not in 1962. According to the table here that year we exported only 3,351,000 bales, and that was under the old law?

Mr. RAY. That is correct.

Senator JORDAN of North Carolina. In 1964 we exported 4,400,000 bales—and that is over 1 million bales more, is it not?

Mr. RAY. Yes.

Senator JORDAN of North Carolina. And that was under the new law.

Mr. RAY. That is correct.

Senator JORDAN of North Carolina. So there is something cockeyed about the figures—it is not the law that is causing this problem—it is probably the way the program has been handled. What is your theory on that?

Mr. RAY. Well, I think that the figures speak for themselves, because the average for the 4 years is very close to what they estimate for this year, yet the act itself is only 1 year effective.

Senator JORDAN of North Carolina. For 1964?

Mr. RAY. 1964, yes.

Senator JORDAN of North Carolina. It will run 4,400,000 bales if we go according to what it is operating now.

Mr. RAY. Specifically answering your question, we are trying to show here that there is something else radically wrong with our sales program and not just the act of 1964. Whatever bearing it had upon it, there are some other factors at work and this we hope to show. And we hope to be able to recommend something about the mechanics of it that will remedy it if adopted.

Senator JORDAN of North Carolina. Thank you, Mr. Chairman.

Mr. RAY. You will note that the average annual exports for 1956-60 exceeded average exports at the 1961-64 by 1,407,000 bales. Had we maintained our exports at the 1956-60 rate, our supply today would be down to a manageable 6 or 7 million bale level. This would closely approximate the national security reserve recommendations for cotton—6 million bales—included in the recently published report of the National Agricultural Advisory Commission.

ROLE OF RESIDUAL SUPPLIER LEADS TO DISASTER

Mr. Chairman, it appears to us that a cutback policy for cotton means that we are to continually cut back our productive capacity to accommodate foreign producers. Must we be content to be the residual supplier in world markets with prospects for eventual production for U.S. mills only? Such a policy would do irreparable damage to areas in which cotton is a major economic factor. It eventually will lead to stagnation and liquidation of a substantial part of the cotton industry.

A SYSTEM TO BROADEN MARKETS

To achieve sales of the current crop and reduce Government stocks we make the following recommendations:

1. Government stocks of cotton should be insulated from the market. Cotton should be released from Government inventories only in specified quantities when automatically triggered by the market price. However, a quantity of cotton from CCC stocks equal to that amount taken out of production by the diversion program should be sold concurrently with new crop in order to maintain our total sales position, and reduce Government stocks.

2. A variable equalization payment, in the channels of trade, should be made to allow American cotton to meet the world price on a continuing basis. The payment should be made upon application by any one who will assume the obligation that the bale will be consumed or exported.

This is a continuation of the principle now used successfully in the administration of the cotton equalization payment program established by the act of 1964, with two important modifications:

(a) The producer may voluntarily assume the obligation that the bale will be consumed or exported and apply to receive the payment; and

(b) The amount of the payment is flexible, rather than rigid.

3. All payments should be contingent on the cotton being consumed or exported during the life of the program, just as is the case with the present law.

4. The loan should continue at levels prescribed by present legislation.

Any argument that cotton will be driven into the loan is false. The loan will be used solely as a device for orderly marketing. The market will at all times exceed the loan. Producers will not place cotton into the loan when it is to their financial disadvantage to do so.

This is the least expensive program available because it will guarantee an effective merchandising system and a market for all cotton produced. Moving cotton to market through normal channels of trade, rather than into storage, will result in substantial savings over the long run.

We are confident, Mr. Chairman, that the program outlined above will achieve a vigorous and expanding market for American cotton, provide adequate protection to grower income, and maintain a single price to domestic and foreign users at a reasonable cost to the Government.

The CHAIRMAN. Have you a bill to present to the committee to carry out your views?

Mr. RAY. We hope to have.

The CHAIRMAN. I wish that you would file it with the committee.

Mr. RAY. Thank you, sir.

(NOTE.—See p. 1334 for draft of bill.)

Mr. RAY. If, however, budgetary considerations preclude accomplishment of the program above, a temporary disengagement from the single price system may be in order until such time as American stocks reach more manageable levels. This could be done by providing that beginning August 1 of the marketing year for the first crop for which price support is made available under section 103(b) of the Agricultural Act of 1949, as amended, and ending July 31, 1970, such payments shall be made in an amount which will make upland cotton produced in the United States available for domestic use at 23.50 cents per pound Middling Inch, average location, until such time that Government-owned stocks on August 1 of any marketing year are 8 million bales or less at which time such payments shall be made in an amount which will make upland cotton produced in the United States available for domestic use at a price which is not in excess of the price at which cotton is made available for export.

If one of the two programs outlined above cannot be agreed upon, a return to the marketing system established by the act of 1958, or some type of domestic allotment plan where the growers receive a higher price for their domestic consumption portion of their production, may be the only alternatives.

GROWERS CHOICE FOR VOLUNTARY REDUCTION

To provide more room in the domestic market for cotton now on hand and to help reduce stocks, we recognize the need for providing a method through which the acreage planted to cotton can be reduced temporarily.

Mr. Chairman, we concur in the objective of S. 2110 to bring cotton supplies in line with demand through individual grower choices or diversions of acreage in relation to individual farm allotments within a 16-million-acre national allotment. However, payments should not be made to take out whole cotton farm allotments at any level of acreage. We propose that the domestic allotment section of S. 2110 be changed to provide authority for incentive payments at a sufficiently high level to obtain the desired amount of acreage diversion.

PRICE SUPPORTS

We recommend a continuation of price supports at 29 cents per pound, Middling Inch average location for the 1966-67 marketing year. Adjustments thereafter should be made in the loan level up or down, based on relative changes in the costs of production, provided that such adjustments would not exceed one-half cent per pound per year within the established range of the existing law—65 to 90 percent of parity. Cotton farmers fully recognize the need for moving toward more competitive prices and are perfectly willing to do so, within the limitation of their capabilities.

EXPORT ACRES

A vigorous cotton export policy should also provide an effective opportunity for U.S. growers who may choose to compete directly with foreign producers in the world market, without price-support assistance. We feel that U.S. cotton growers should have the choice of equal opportunity with foreign growers in the world market.

The CHAIRMAN. That would mean additional acreage, would it not?

Mr. RAY. Yes.

Mr. SMITH. Under certain conditions.

Mr. RAY. Under certain conditions.

The CHAIRMAN. Do you spell out those conditions?

Mr. RAY. Not here.

The CHAIRMAN. Are they different from the law, the special law enacted last year?

Mr. RAY. Not necessarily so, Mr. Chairman. This is a general recommendation that we feel that the growers should have choices—the more choices the better.

The CHAIRMAN. If we should produce more cotton and more acreage, would that not make it impossible for us to decrease our surplus by sales abroad?

Mr. SMITH. We do not think that the export acres provision should be operative unless we do have a certain reduction in our carryover.

The CHAIRMAN. That was the condition under which the additional acreage would be made, under the 1964 act, that the surplus had to be reduced, as I recall, at least 1 million bales, and if that happened

then the more acres could be allotted to the farmers who desired to produce cotton and to sell it.

Mr. SMITH. At world prices.

The CHAIRMAN. At world prices; yes.

Mr. SMITH. Yes.

The CHAIRMAN. As to the cotton that would be sold at the world prices, under your plan do you have any provision whereby the Government would have to loan money on that production?

Mr. SMITH. No, sir; no, sir.

The CHAIRMAN. So that it would be entirely at the risk of the producer?

Mr. SMITH. That is right.

The CHAIRMAN. He would have to handle and he would have to store and he would have to sell it and he would have to be his own salesman, or he would sell it through the regular channels?

Mr. SMITH. Yes, sir.

The CHAIRMAN. Please proceed.

DIVERSION PAYMENTS VS. PRODUCTION PAYMENTS

Mr. RAY. Cottongrowers would like for this record to include full clarification of their views concerning direct payments.

Obvious to all, payments as incentive for the individual producer to reduce production below his allotment or base acreage are mutually advantageous to the grower and to the Government. This type of incentive assists the grower in making adjustments without financial embarrassment and with a minimum of impact upon the value of his farm. This is particularly true when there are variable choices which enable the grower to fit a program to his farm management problems.

It is clear, too, that incentive payments to adjust production are in the best interest to the Government to reduce program costs. As things now stand, it is less costly to encourage a grower to make a reasonable adjustment in production rather than have added bales produced.

In addition, a grower under incentive programs now on the books can stay out of the program if he so desires.

On the other hand, growers strongly oppose payments as the basic part of the price support on production. Here are the reasons why:

Cotton is under tight acreage and marketing quota restrictions. The grower dependent upon cotton must stay in the program. If the loan level were to be 22 cents per pound with a 7-cent payment on production, 32 percent of the gross income and all of the net income would be tied to production payments—tied to annual appropriations. It would appear to be crystal clear that dependency upon congressional appropriations—which often are made in midsummer or later—would be unsound. Growers have been warned repeatedly that safeguards, guarantees against limitations of appropriations or the amount of payment to a farm, cannot be provided. Apparently, no one can answer the question—How can one Congress bind another?

Limitations appear to be inevitable when direct payments are tied to bales of production on the individual farm; such payments are subject to attacks that they serve to stimulate more production that, in turn, increase Government costs.

It must be recognized that cotton farmers cannot pay prices reflecting built-in rigidities in the United States and sell at world prices.

RESEARCH

We strongly urge full implementation of the cotton research section of the Agricultural Act of 1964 to reduce production costs and improve quality.

In conclusion, may we emphasize again, in this Nation, dedicated to economic growth and stability, it is unthinkable that we should sit on a huge inventory and ruin the prospects for a vigorous cotton industry by big acreage cuts and by maintaining the position of residual supplier in world markets. Such is contrary to prudent Government policy and good business practices. It is also unthinkable that huge cuts in farmer income should become the main way to cut Government costs.

Mr. Chairman and members of the committee, we believe that we are offering a practical way to get a better job done for all in cotton, for the Government, and for the general public.

Thank you.

The CHAIRMAN. Do you favor the provision in the bill that is before us, in S. 2110, to induce the farmers to produce for the domestic market only at a premium of, say 3 cents or so?

Mr. RAY. Yes, we are in general agreement with that.

The CHAIRMAN. So that the farmers producing on the 15 acres or less would be considered as the farmers producing for the domestic market?

Mr. RAY. I thought that you had reference to S. 2110.

The CHAIRMAN. To S. 2110, that is the one I am talking about—that is in S. 2110.

Mr. RAY. Mr. Smith do you want to answer that?

Mr. SMITH. We have not gone into the changes that would be made. We did recommend that the incentive payment might be increased in order to get more participation. I believe that we got a little over 1 million acres this year. Certainly this matter of maintaining the 15-acre man on his cutback in his domestic allotment is a subject of considerable discussion. There are those who think that he ought to be cut back just like everybody else. Whether it be possible to do so, I imagine that it is something that this committee will have to determine.

The CHAIRMAN. That provision is included in the present law.

Mr. SMITH. I understand that.

The CHAIRMAN. The idea was to afford an incentive to the larger growers that if they produced for the domestic market, that is, reduced voluntarily to two-thirds of their acres, that they would get a premium for doing that. The production relative to the domestic consumption. Then it would have a tendency to reduce our subsidy.

Mr. SMITH. We have no objection to maintaining those same provisions in the present law, but we do think that the incentive payments should receive some consideration. Consideration should be given to increasing them to get greater participation.

The CHAIRMAN. Have you figured out the cost of the program if your proposals were adopted?

Mr. RAY. Mr. Chairman, I think that we can clearly say that the cost will be less than what we are now experiencing.

The CHAIRMAN. You mean less than \$900 million?

Mr. RAY. Yes; considerably less than that.

The CHAIRMAN. Do you have any idea how much?

Mr. RAY. Let me ask Mr. Davis to comment on Government cost.

The CHAIRMAN. Mr. Davis said he had a fine plan. I want to hear him.

Mr. RAY. We will be delighted to have him speak.

The CHAIRMAN. Is this the plan that Mr. Davis has?

Mr. SMITH. This is a part of our plan.

Mr. RAY. He is a part of our group.

The CHAIRMAN. I wish that he would elaborate on it. I am sorry that I could not see him this morning when he called at my office. I had to go to a markup of the independent offices appropriation bill.

You may proceed if you want to expand on what has been stated by Mr. Ray, Mr. Davis.

Mr. DAVIS. Mr. Chairman, I would like to respond to your question concerning the program costs.

It is obvious that the cost of the cotton program to the U.S. Government will be the difference between the price which the grower receives and the price at which the cotton is sold.

Under present legislation and under the legislation which we are recommending we would have a continuation of the one-price system and cotton would be sold at a price which would be competitive with world market prices.

Now, as to the exact cost of any program, that will be determined by the world price for cotton and, of course, the price level which you intend to guarantee to the grower, because the Government will be paying the difference over the long run between those two price levels—the price that the farmer receives plus any incentives to reduce his production, and then the price at which the cotton is sold to users, both in this country and abroad.

So you have to make some assumptions concerning world price and the price support level for farmers before you can accurately determine the cost.

One of the primary factors which must be considered is the effectiveness of the diversion program. We currently have in Government warehouses, or will have at the end of the life of the present bill, approximately 15 million bales of cotton which will have a value of approximately \$2 billion. We see various figures tossed around about the cost of this program and the cost of that program.

For example, we are told that the bill introduced in the House, H.R. 9414, would cost something less than \$600 million. This is because it provides for a substantial diversion of bale payments to farmers to keep bales from being produced, so that the Government cotton can come out of the warehouse and be introduced into the market. When this is done a substantial part of the Government inventory can be reduced to cash and will help bear, until surpluses are reduced, a part of the cost of the program.

If we should assume an effective diversion program which would reduce the new crop production to a level of, perhaps, 12 million bales, and if we assume maintenance of approximately 23 cents on world

price, and if we assume a continuation of the 29-cent support level to farmers, the cost of this program during its first year would be, approximately, \$550 million. This is due to the fact that approximately 2,500,000 bales of cotton would move out of the Government warehouse and would be sold for cash helping to defray a substantial part of the program cost for that year.

The CHAIRMAN. You are assuming that production would remain at a standstill, too; are you not?

Mr. DAVIS. We are assuming that the production would be reduced to approximately 12 million bales through a diversion program that would make it financially attractive to the growers to comply.

The CHAIRMAN. Well, then, on the acreage to be planted you are making such assumptions that the production would be at the current level?

Mr. DAVIS. Yes; we are using the assumptions of the Department of Agriculture that were attached to Mr. Murphy's testimony before the House.

The CHAIRMAN. Are you in agreement with the statement made today that the difference in the sale of cotton to the textile mills and the foreign mills is around 3.5 cents per pound?

Mr. DAVIS. I am in agreement with the statement that there is a freight differential between the domestic market and the foreign market of approximately 3 or 3.5 cents a pound.

The CHAIRMAN. That is what we are speaking of—you are in agreement with that?

Mr. DAVIS. Yes.

The CHAIRMAN. So that even under the present law the domestic mills have been receiving cotton at a lesser price than the foreign mills, about \$17.50 a bale?

Mr. DAVIS. Approximately that.

Senator JORDAN of North Carolina. May I ask a question at this point?

The CHAIRMAN. Let him answer this first.

Mr. DAVIS. Thank you, sir. Before the American cotton program began, American mills received cotton at a lower price than the foreign mills because of their proximity to the source of supply. This gets into a definition of the one-price system of cotton, whether you believe that the cotton should be made available to everyone at the same sales price with each person then adding to the sales price of the cotton or his purchase price because of freight to get it from the source of supply to his particular mill. We obviously cannot adjust the differences between the European market and the Far Eastern market, for example, because we have an entirely different freight rate structure between those two primary consuming areas.

And, of course, the domestic mills, because of their proximity to the cottonfields of this country, do have a geographical advantage, but we pictured one-price cotton as meaning that American cotton will be priced at the same level to all potential consumers, with each potential consumer to pay his own freight.

Senator JORDAN of North Carolina. That is the point that I wanted to make, what the freight rate to the American mills is depends entirely upon where the mill is located and whose cotton he buys.

For instance, cotton produced in California and transported to North Carolina by rail, which I think practically all of it is, is not far out of line, if my figures are correct, to those for Japan, which goes from the Pacific coast in Japanese ships. If you put it into American bottoms, that is a different proposition. But with the Pacific Ocean freight rate that is not a great deal different. The same thing with regard to Texas, going out of Galveston and Houston to some of the mills in Liverpool and so forth, it is cheaper than it would be to ship from California to there, because it would have to go either through the Panama Canal or to be transshipped across the United States to an American port. That varies widely. If a man has his cotton mill located in the middle of the cotton field, he has no freight. If he has 3,000 miles, he has a world of freight.

The CHAIRMAN. Would you put in the record how you reached the figure of \$3.50? I mean the 3.5 cents.

Mr. DAVIS. In connection with this freight differential?

The CHAIRMAN. That is right.

Mr. DAVIS. Mr. Chairman, that figure was not mine.

The CHAIRMAN. I thought that you said that you were in agreement.

(The information referred to above is on p. 1337.)

Mr. DAVIS. I said in general. I said 3 to 3½ cents. Your freight rate from Texas gulf ports to Europe is 185 points. The freight rate from my particular producing area—this is the High Plains of Texas to the gulf ports is 60 points. This is the overland transportation cost to get from Lubbock to the water.

Then you go across the water. I do not know what the European freight rates are, very frankly, sir, but I would assume them to be roughly comparable to the American rail rates and would probably be somewhere between one-half a cent and a cent per pound, depending upon the distance—how far inland the mill is located.

Now, going to the Far East, the freight rate from the gulf ports in Texas, which is the primary source of supply for the Far Eastern trade, is approximately 220 points. We have the same 60 points to get to the water, making 280 points. And then you have got the landing costs after the bale arrives at the foreign port.

So I would say that somewhere in that range it is approximately correct.

The CHAIRMAN. Are there any further questions?

Senator JORDAN of North Carolina. I have a question of Mr. Ray.

Did you know that I was the author of the acreage adjustment or reapportionment cotton law which is now in effect? What is the grower's attitude or their position on this law which is in effect right now; that is, release and reapportionment?

Mr. RAY. I think it is no secret that there are differences of opinion, depending upon where you are and how you are affected by the way that the release and reapportionment is now handled. It would be our judgment that a large majority of the grower groups prefer that the release and reapportionment remain about as it is in the act. We made no reference to this at all.

Senator JORDAN of North Carolina. I would like to ask Mr. Heidelberg a question, too, Mr. Chairman.

What is your opinion on this cropland adjustment program?

Mr. HEIDELBERG. The cropland adjustment program?

Senator JORDAN of North Carolina. Yes, the cropland adjustment program.

CROPLAND ADJUSTMENT

Mr. HEIDELBERG. Senator Jordan, I view that as a revival of the soil bank of 1956. So far as the cotton acreage is concerned, definitely we have the feeling that with the diversion program on cotton such as has been suggested by the eminent chairman of this committee, in S. 2110, cotton would have its own grower voluntary soil bank program. Under the cropland adjustment program, as I see it, it would be very damaging to the beneficial results of the release and reapportionment law in each State. It could be ameliorated if a provision were put in, that is, so far as the cotton acreage is concerned, that not in any year could the cotton acreage in this cropland adjustment program in any State exceed 5 percent of the State total allotment.

Senator JORDAN of North Carolina. I have another question that I would like to ask Mr. Ray.

On page 7 of your statement, Mr. Ray, right about the middle of the second paragraph you say:

However, payments should not be made to take out whole cotton farm allotments at any level of acreage.

Just what do you mean by that? I do not quite understand that.

Mr. RAY. I think Mr. Heidelberg can best answer that one, and if he does not care to answer it, I will answer it.

Mr. HEIDELBERG. I will be delighted to answer that one, Senator Jordan. Let me illustrate by saying there was the proposal made over on the House side very recently that there be an increase in the diverted acreage payments but it was said, however, that those with the 15-acre allotments or less could receive the payment and not have to plant any cotton and would retain their history for their acreage. This would be a permissive, very damaging soil bank program and would, certainly, not be in the interests of the farmers. That is, those who are benefiting and maintaining a family farm operation particularly which means the difference between solvency and bankruptcy for these people. I think what Senator Ellender has proposed, that the 15-acre man, the 10-acre man, or whatever level it is, not be forced to cut back and receive the payments but still maintain his whole program in the hands of the bona fide growers is the essential way to do it. If you pay anybody any level of payment and they can take the payment and not plant cotton, you have done damage to the cotton program, because a great deal of such small allotments are very definitely in the hands of people who are professional urban people who have these farms for hobby purposes or for investment purposes and are in the hands of people who have long since quit farming and are now gaining their livelihood outside of farming. And there has been some question as to the validity of that statement.

I supplied the Secretary of Agriculture with seven statements from seven county agricultural extension chairmen in North Carolina who substantiated that statement and from seven ASCS offices in the State of Alabama who substantiated that statement. And if the good Senator desires more, I think that I can readily get them for you.

The CHAIRMAN. Are there any further questions?

Senator MONTOLA. I would like to ask a question or two.

The CHAIRMAN. Proceed.

COTTON

Senator MONTTOYA. Do you know what the Department of Agriculture is advocating by way of a cotton program at the present time?

Mr. RAY. To the best of my knowledge, Senator Montoya, it is embodied in H.R. 9414.

Senator MONTTOYA. What is your view on the provisions of this bill?

Mr. RAY. We are very strongly opposed to the provisions.

Senator MONTTOYA. Would you pinpoint your objections to the bill?

Mr. RAY. First of all, and generally stating, we do not believe that lowering the price simply to the 22 cents corrects anything.

Senator MONTTOYA. Why do you say that?

Mr. RAY. Simply because it is so close to what is now generally conceded to be the world price. The foreign producers would simply lower their price to just under our price, which would be fixed for a year and they would continue to sell under us and at the end of the year we would simply have a lot more stocks—we would not free up anything, and we would create a whole mass of new problems and intensify some that are now in existence.

For example, the net effect of this would be to lower the price of cotton from 29 to 22 cents, which would affect our ability to borrow money. At the end of the year we would be back here, all of us, begging Congress to change the act again.

I think we would bring down a multitude of new problems and new bad situations.

Senator MONTTOYA. What would be the cost of that kind of a program? Has anybody estimated the cost of the Department of Agriculture approach?

Mr. RAY. The Department estimates it to be in the neighborhood of \$600 million. I say that the net cost of it would be ruination of the entire industry.

Senator MONTTOYA. Do you think that the program would depress the world market prices?

Mr. RAY. To whatever extent the Secretary changes the price?

Senator MONTTOYA. Yes. Do you think that it would trigger a decline in the world market price by the foreign producers?

Mr. RAY. By that exact amount, whatever amount that he lowered it, which is not specified in the act. I can only say what most people are saying, that it probably would be around 22 cents.

Senator MONTTOYA. How would your approach constitute a better remedy for the present situation?

Mr. RAY. Our approach brings competition into the total market. And I wish Mr. Davis would expand on this one point of how our approach does this and what we are recommending, Mr. Chairman, how our approach would actually unfreeze the market and bring competition—real competition into the market.

The CHAIRMAN. I wish that he would.

Mr. DAVIS. Senator Montoya, we compute that the cost of our program would be approximately the same or perhaps slightly below the cost of H.R. 9414. We visualize that this will be done through the maintenance of a loan level within the existing framework of the present law, 65 to 90 percent of parity. We must bridge the gap between that price which the grower is going to receive and the world price. We propose that this be done through the mechanism of a variable subsidy which would vary as market conditions unfolded

during the course of the marketing year, so that the American cotton could remain competitive during the entire 12 months of the marketing season. This is directly opposite to our present system which is to announce a year in advance the price level which we are going to take for our crop.

Senator MONTOLA. Do you feel that announcing the price a year in advance has hurt us in the world market?

Mr. DAVIS. Yes, sir; I do. We feel that it gives stability to the entire world cotton merchandising industry and that we are, in effect, operating a price support program for the entire cotton producing world. We propose to free up this situation through the mechanism of a variable payment during the course of the marketing year to allow those who merchandise and sell American cotton to remain competitive.

This immediately raises the danger of an international price war on cotton which would be to the disadvantage of the American Government for many reasons. We have not thought and have no intention of handling the program in that way. We currently have, according to the Department of Agriculture estimates a potential market for approximately 5 million bales of cotton in 1966 crop year if we assume a world price of 23 cents per pound. This is the best estimate of the Department of Agriculture economists, because we all know that no one in the Department of Agriculture or anyone else can forecast now the price level at which the world supply and world demand will equate when we get to a crop year down in the future, but we believe that the situation can be handled in this manner. If we announce to the world that we will sell a quantity of cotton equal to that produced during the crop year, together with a reserve from Government stocks equal to the bales that would have been produced on the diverted acres had we had no acreage diversion program that we will then be in the same position as Mexico or Brazil or any other foreign cotton producer, which is that we will have available for sale on the world market a quantity of cotton equal to that which we are producing during the crop year.

The CHAIRMAN. Would that be sold at whatever it would bring?

Mr. DAVIS. Yes, it will be sold at the world price.

The CHAIRMAN. To the highest bidder?

Mr. DAVIS. Yes, sir; in effect, through normal channels of trade.

Senator MONTOLA. Why do you say that would be better than the Department of Agriculture policy delineated in their present bill?

Mr. DAVIS. Under the Department of Agriculture bill we would have, as it has been explained to us by the Secretary, a 22-cent loan. We would have no flexibility in the act as to the market situation. If world production should continue to exceed world consumption we would bear the entire burden of the adjustment which would have to occur. In other words, there would be no measure of responsibility imposed on the foreign cotton-producing nations. They can continue to expand their production, knowing full well that if any surplus of cotton exists it will wind up in the American warehouse.

Senator MONTOLA. What you are trying to tell us is that your bill would force the world producer outside of the United States to share the burden of price fluctuation with us?

Mr. DAVIS. Yes, sir; and a sense of responsibility to produce no more cotton than can be consumed at a reasonable price level.

Senator MONTROYA. And, also, a sense of responsibility in trying to stabilize the world price.

Mr. DAVIS. Precisely, sir. We do not visualize that we would shoot our way into the world market—far from it. We visualize that this bill would be administered with prudence by the Secretary of Agriculture. We would limit ourselves to the sale of a quantity of cotton equal to our crop production, plus a reduction in our Government inventory equal to the bales which would have been produced on the diverted acres had we not paid American farmers to divert them. This is very important, sir, because if we do not bring out of Government stocks a number of bales equal to those which would have been produced on the diverted acres, we are simply exporting to foreign producers the benefit of our acreage diversion program.

Senator MONTROYA. Does your bill make provision for that?

Mr. DAVIS. Yes, sir. We would sell during the marketing year a quantity of cotton equal to the production of the new crop plus this quantity of bales removed from the Government stocks and offered for sale to replace those.

Senator MONTROYA. Does the Secretary's bill have any provisions along those lines?

Mr. DAVIS. Not to my knowledge, sir.

The CHAIRMAN. That bill reduces the acreage from 16 to 14 million.

Mr. DAVIS. Yes.

Mr. SMITH. I believe they have changed that now, Senator. They have a new bill. They have a new bill over there.

The CHAIRMAN. I am talking about the bill that has been talked about.

Mr. SMITH. They have a new one.

The CHAIRMAN. Call it the Cooley bill.

Mr. SMITH. Yes.

The CHAIRMAN. I think that we are discussing, or that Senator Montoya is discussing, the so-called Cooley bill.

Mr. RAY. Yes, sir; the new one. I believe that is the one which you have reference to.

Senator MONTROYA. The new Department of Agriculture approach; yes, sir.

Will you state into the record exactly what has been done by the various cotton associations to arrive at the approach which you espouse before this committee?

Mr. RAY. What we have done, sir?

Senator MONTROYA. Yes, sir. What discussions have taken place—what meetings have taken place—and how have these meetings been held, and what representatives of the cotton-producing industry have been present?

The CHAIRMAN. Senator, I think that in his opening statement he mentioned that.

Senator MONTROYA. He mentioned the group.

The CHAIRMAN. Those are the only people that you have talked to?

Mr. RAY. That is right.

Senator MONTROYA. I want to find out what they did to arrive at this contention.

Mr. RAY. Specifically, and to elaborate, we are in almost constant session as a committee. For weeks now we have been meeting at 9 o'clock in the morning and at 2 o'clock in the afternoon.

Our discussions are open, Senator Montoya, to any cotton group that wishes to join with us. We are not in executive session on these things. It is open discussion. We are taking a good hard look. All of these associations have been present or were aware that we were meeting and could have been there had they desired. I believe that I am being very honest in saying that the names on this list know this. They understand very well what we are talking about. And we will continue to meet in this manner until we are completely perfect, and also, Mr. Chairman, until we can answer some of the requests that you have made to us this morning.

Senator MONTOKA. Thank you.

Mr. RAY. Does that answer the question?

Senator MONTOKA. Yes.

The CHAIRMAN. Are there any further questions?

Senator JORDAN of North Carolina. May I make a little statement for the record here?

The CHAIRMAN. Yes.

Senator JORDAN of North Carolina. It will consist of about 2 minutes.

Cotton, like any other commodity, is sold in competition. And when you have an umbrella over it all the other fellow has to do is stay under the umbrella. We import a very limited amount of cotton into this country from Egypt and Peru—not big quantities—about 90,000 bales, approximately.

Well, now, as you well know, we have a support price on American Pima cotton. The import market this year on Egyptian and Pima is just slightly under the American support price on Pima cotton. In other words, that is the umbrella. That is all they have to do, is to get under it to sell their cotton. We, fortunately, do have a limit to what they can bring in, as you well know.

The Pima support price in this country dropped to 50 cents, and the other markets dropped right down. You cannot sell it any higher. Nobody will buy it.

And that is the same thing that happens all over the world to any commodity that we are trying to sell.

Do you agree with that?

Mr. RAY. Yes.

The CHAIRMAN. Let us go off the record.

(Discussion off the record.)

The CHAIRMAN. The committee will stand in recess.

Mr. RAY. May I have permission to read into the record others who are present from our committee?

The CHAIRMAN. Yes. Just hand it to the reporter and he will make it a part of the record.

Mr. RAY. I will hand it to the reporter.

(The following were present:)

Nick Rose, of Arkansas; J. S. Francis, Jr., of Arizona; C. R. Sayre, of Mississippi; Donald Johnson, of Texas; Terry Julian, of Texas; Bob Heard, of Texas; J. T. Haynes, of Tennessee, and John Reynolds, of California.)

The CHAIRMAN. The committee will stand in recess until 2:15 this afternoon.

(Whereupon, at 12:30 p.m. the committee recessed to reconvene at 2:15 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Mr. Schwartz, will you come forward, please?

Proceed.

Will you identify yourself for the record.

**STATEMENT OF BENJAMIN SCHWARTZ, EXECUTIVE CONSULTANT,
TEXTILE DEALERS ASSOCIATION OF AMERICA, NEW YORK, N.Y.**

Mr. SCHWARTZ. My name is Benjamin Schwartz. I am executive consultant of the Textile Dealers Association of America.

If I may, instead of reading the statement, I would like permission to summarize it very briefly and to present our position on which we are seeking some guidance and help from the committee.

The people that I am concerned with are the wholesale exporters engaged exclusively in the export of textile products such as remnants, piece goods, and pound goods.

Although at the opposite end of the farmer growing cotton they play an important part in the distribution worldwide of the end products.

Now, until last year in our branch of the industry, there was the foundation laid of a growing export business exclusively in textile products as the result of the cotton products export incentive program.

After the passage of the 1964 act, which eliminated or suspended the export incentive program, the thought—one of the purposes, as I understand it, of the one-price cotton subsidy paid to the mills was to pass on the benefits of that and encourage and enlarge the export trade.

I am not concerned with the theory of the domestic benefits that might have been involved.

I regret to advise that not part of this subsidy was passed on to the wholesale export distributors of textile products:

The CHAIRMAN. You mean by way of reduced——

Mr. SCHWARTZ. Reduced price.

As a matter of fact, the price was increased on quite a range of grades.

The CHAIRMAN. Even though the mills were subsidized to the extent of about, between \$30 and \$35 a bale?

Mr. SCHWARTZ. Yes.

The CHAIRMAN. Is it your judgment that the consumers got no benefit from the cut in cotton rates?

Mr. SCHWARTZ. Well, when you——

Mr. CHAIRMAN. Lower prices.

Mr. SCHWARTZ. When you talk about consumers——

The CHAIRMAN. I am talking about the consumers throughout the country. If you have any information for the committee I would appreciate if you would indicate the extent to which the consumers of cotton in this country benefitted because of this one-price system in which the domestic mills received an indirect subsidy of about \$30 to \$35 a bale.

Mr. SCHWARTZ. Very frankly, Mr. Chairman, I feel that I would serve the interests of the people I represent if I stuck only to the alleged benefits intended in the one-price cotton subsidy for the development of the export trade. As I understand it there were two pur-

poses intended, one for domestic benefits passed on to the ultimate consumer and one to enlarge the export trade.

So my comments are restricted, if I may, to the failure of passing on any of this subsidy or incentive to our branch of the industry.

The net result in 1 year was the loss of more than 50 percent of the volume of business that our branch of the industry had up to July 1, 1964.

The CHAIRMAN. What did it amount to?

Mr. SCHWARTZ. That amounted to——

The CHAIRMAN. Bales.

Mr. SCHWARTZ. That—well, I have in this report the denomination of square yards, and it represented 280 million yards of textiles in the form of—that was exported by our branch of the industry.

The CHAIRMAN. From——

Mr. SCHWARTZ. The last year.

The CHAIRMAN (continuing). Yardage which was manufactured in this country?

Mr. SCHWARTZ. That is right.

That was in 1963, was the full year in which we recorded that.

That dropped as a result of the incentive not being passed onto us, to less than half projected for this year, and it reduced the outlets, the countries, where we shipped these remnants and piece goods from 40 to 17, which is the narrowed area without the incentive that we have been reduced to.

The CHAIRMAN. Well, according to the figures I have before me, the export in thousand bales of cotton which would probably, could be converted into this yardage by you give us, for 1962–63 was 436,000 bales; 1963–64, 466,000; for 1964–65, it is estimated at 362,000 bales, so there was a decrease in exports; is that what you are contending?

Mr. SCHWARTZ. Yes; and particularly affecting our branch of the industry.

I think a full classification would include two branches engaged in the export trade, ours and the export departments of the mills. They, too, do some exports which is an incidental part to their operations because they are domestically oriented in the main.

The CHAIRMAN. It would seem to me that the fact that the mills did obtain cheaper cotton that the exports should have increased.

Mr. SCHWARTZ. That is right. They should have functioned in that direction very handsomely in my own opinion.

The CHAIRMAN. Why didn't they?

Mr. SCHWARTZ. I can't add any enlightenment to that.

Now, we are facing the problem of extending the Agricultural Act in some form, whether it is in the form of one-price cotton policy, and as far as our branch of the industry is concerned, in practice, it will make no difference to us whether the grower gets the subsidy or the mill, without the incentive provided up to and through 1963, to enable us to meet the lower cotton world market price which the manufacturers in other countries have that benefit as well as lower labor costs, we are in economic danger, it will simply aggravate the situation for our branch of the export industry, and very briefly, if I may, I would like to justify our petition to be included in some formula with three policies that I believe have been declared by the Congress:

First, if it is still the policy of Congress to encourage and enlarge export expansion then I urge that the services of our branch of the industry not be overlooked as an instrumentality in expanding textile exports and making a very substantial contribution to the balance-of-payments problem.

Secondly, if it is the policy of Congress to encourage and protect the small businessman in our national economy, then we are dealing here with small businessmen by any congressional or departmental definition, and unless some thinking is done to provide an export incentive as the industry had before the one-price cotton subsidy to the mills, there will be many of the 250 member firms in our branch, that may have to go out of business.

The CHAIRMAN. In what form would you want that subsidy to be paid?

Mr. SCHWARTZ. In any——

The CHAIRMAN. Is that in addition to what we are doing now?

Mr. SCHWARTZ. Either in addition to or a restoration of the cotton products export sliding scale formula under which all textile products or most of them, up to and through 1963 were exported for some years.

The CHAIRMAN. You say that under the laws that existed prior to 1964 you were given some advantage.

Mr. SCHWARTZ. That is right.

The CHAIRMAN. What was it?

Mr. SCHWARTZ. Well, they had a sliding scale of, depending upon the weight of the cotton textile exported which applied to the mills as well as to our branch.

The CHAIRMAN. Don't you have that now?

Mr. SCHWARTZ. No; that was suspended and eliminated by the Agricultural Act of 1964 which substituted a one-price cotton subsidy to the mills, period.

That eliminated that.

There is a third basis for our petition in addition to the expansion of export trade and the protection of the small businessman, and that concerns the commercial competition of totalitarian and Communist countries that this country should be concerned with.

If that is also favorable to the wisdom of Congress, then I urge that the unparalleled instrumentality for meeting part of this challenge is available in our branch of the industry. It shouldn't be overlooked, that the emerging and underdeveloped countries of the world are the best markets for remnants and piece goods and pound goods, and as a matter of fact, the totalitarian and Communist countries are developing aggressively and using their remnants and textile products, especially in Africa and Asiatic countries for propaganda purposes because it should be obvious that the end product from these piece goods become closest to the skin of the natives and the inhabitants of these underdeveloped countries.

Now, the export departments of the mills in the United States, which as I mentioned before, are domestically oriented, are not interested in developing or meeting this kind of a challenge. The people in our branch of the industry who devote themselves and have devoted themselves exclusively to the development of export markets for these remnants and textile products up to and through 1963 in 40 countries

and now only in 17, can recapture these markets and intensify the challenge that they can meet.

They have the staff, the experience, and the know-how in doing that. So with a reasonable export incentive I give this as a third reason why there should be justification for some kind—for some consideration to the problems of our industry as an integral part of your study of the cotton problem.

If I may I would like to conclude with just one, the last paragraph of my written statement. We need encouragement not only to survive but to develop as useful instrumentalities in expanding foreign trade, in contributing substantial millions of dollars to the balance-of-payments deficit and in meeting the challenge of totalitarian and Communist competition.

We, therefore, ask your cooperation and expertise to develop and include a fair export incentive formula in any cotton legislation. We urge you respectfully not to overlook the constructive potential which we represent in our national economic and political policies. We are ready to work with you and your staff to accomplish these purposes by supplying a committee of industry experts.

The CHAIRMAN. Well now, how were you paid that subsidy prior to 1964, just explain that?

Mr. SCHWARTZ. The exporters had to file copies of their orders and when it was ready to be shipped, they didn't get any money prior to shipping the order, and they complied with a lot of data required in connection with that subsidy payment, and got it after the shipments were made.

The CHAIRMAN. In the form of cash?

Mr. SCHWARTZ. In the form of cash.

The CHAIRMAN. As I pointed out a moment ago, the estimated baleage that would be exported this year by way of finished goods or yardage has been reduced from last year by 104,000 bales.

Can you give us an idea of why that was?

Why should there be a reduction of exports when cotton was sold to the domestic mills at a much cheaper rate than prevailed in 1963-64.

Mr. SCHWARTZ. The only addendum that I can permit myself to make is that cotton product exports are entirely incidental to the operations of the mills, textile mills in the United States.

In other words, 96 percent, as I heard a while ago, I thought it was 98 percent from the data I have been able to study, represented the domestic market. That was their major interest, and they were not export oriented.

The CHAIRMAN. In the past, though, as I have indicated here, the sales amounted to a good deal more than now, and it would seem to me that since cotton, raw cotton, was sold to our domestic mills at a cheaper rate that it would mean production of textiles at a lower rate, a lower cost which, in turn, would mean to me more export.

But is it your view that they found a better market here, I guess, than they could abroad?

Mr. SCHWARTZ. Yes; I think that is the only fair conclusion.

The CHAIRMAN. Well now, if you will submit for the committee, to the committee, through your experts, language that will encourage the exportation of finished products you may do so.

Mr. SCHWARTZ. Thank you very much, I want to. I welcome that invitation.

(The supplemental statement of Mr. Schwartz is as follows:)

NEW YORK, N.Y., June 30, 1965.

Senator ALLEN J. ELLENDER,
Chairman, Senate Agriculture and Forestry Committee,
Washington, D.C.

DEAR SENATOR: I wish not only to thank you for your consideration extended to me at the hearing held yesterday, but also to let you know that I learned a great deal about a complicated subject, through your expert examination of witnesses—a byproduct of your more than 28 years of service on the Senate Agriculture Committee.

As for my own appearance before your committee, you were kind enough to suggest that I could supplement my written statement, with what may be considered an "extension of my remarks."

Prior to July 1, 1964, the independent exporters of textile products and the mills who wished to export, had equal and direct access to the export equalization payment, or "drawback," based on cotton content. (See attached "Cotton Products Export Program Regulations" of Commodity Credit Corporation.)

After July 1, 1964, when the Agricultural Act of 1964 became effective, only the mills were placed in a position to develop exports, through the one-price-cotton subsidy paid to them. As my written statement indicates, no provision was made for the development of export markets by the independent wholesale exporters, and no part of the subsidy was passed on by the mills to them, as it was intended.

If the net result of congressional discussion will be to continue the one-price-cotton policy (whether the subsidy is paid to the grower or to the mills), without provision being made to put the only branch of the textile industry that has the experience, willingness, and trained staff—the independent wholesale exporters—on a competitive basis with world market producers of textiles, then is it our considered judgment that any pretense to the enlargement of an export textile program will merely be lip service to an ideal.

My main objective was to present the problem, and to examine approaches and alternatives to its solution. I am not prepared to freeze our thinking into legislative language, but to raise certain questions:

If the subsidy is paid to the mills, can provision be made for the independent exporter to share in their subsidy?

Will the renewal of a "cotton products export program" under Commodity Credit Corporation (or a reasonable facsimile thereof) be the answer?

Since a large area of discretionary power is left to the Secretary of Agriculture in proposed legislation, will the answer lie in reserving some part of this export program to the Secretary's discretionary power? If departmental consideration is indicated (in addition to legislation), we would request your cooperation in bringing us together.

Again, with sincere thanks for your courtesy, and awaiting your advice, I am,

Sincerely,

BENJAMIN SCHWARTZ,
Executive Consultant, Textile Dealers Association of America, Inc.

(The regulations of the Commodity Credit Corporation referred to above are on file with the committee.)

The CHAIRMAN. All right.

Any questions?

Senator JORDAN. Mr. Chairman, I would like to ask Mr. Schwartz if it wasn't under the prior law when you exported cotton textiles or cotton of any description that you got a drawback on the amount of the subsidy which equalized the American export textile fibers on a par with the foreign mills.

In other words, when it was 81½ cents he, now the exporter—I am not talking about the mill—he, the exporter, he applied to the Treasury Department for a rebate on, say, 100,000 pounds of fabric, yarn,

whatever it might be, and they paid him on the basis of the cotton plus the waste content that was taken out of that.

It might have been 8½, it might be 11, 11½ cents which he got back.

When they went into one-price cotton that ceased to be because the American mills manufacturing his goods on the same price Germany, Belgium, France, Holland were so there wasn't any drawback.

The CHAIRMAN. I thought under the law that on all cotton that was manufactured by textile mills whether for export or not you paid the same price.

Senator JORDAN. You did. You paid the same——

The CHAIRMAN. I mean you bought the raw material under the same terms as the foreign.

Senator JORDAN. You did under this present law.

The CHAIRMAN. Why should that change?

Senator JORDAN. Except to this extent, prior to this law the American mills were paying 8½ cents more than the foreign mills. When we exported to make the American fabric competitive with the foreign mills, they allowed the exporter to draw that money back which would put the American manufacturer in competition abroad, not at home, with the foreign mills.

In other words, his cotton was the same price as the foreign mill.

Isn't that right, Henry? That is correct; that went out of business in his case—in his because they were all getting cotton at the same price.

The CHAIRMAN. Are we to understand then, that this drawback was allowed to the mills when the mills showed this——

Senator TALMADGE. Or any exporter, only an exporter.

Senator JORDAN. He represents exporters.

The CHAIRMAN. I understand.

Senator JORDAN. Usually this is sold to an exporter and he gets the drawback. Now, he doesn't get the drawback because there isn't any.

The CHAIRMAN. Well, the textile mills got the same drawback as he did.

Senator JORDAN. No.

The CHAIRMAN. Yes; I don't mean now, I am talking about prior to this 1964 act.

Senator JORDAN. Only the exporter did, however exported got the drawback.

Senator RUSSELL. But the mill gets it now is what the chairman says.

Senator JORDAN. The mill gets the cotton at the same price as the foreign mills so there isn't any drawback.

The CHAIRMAN. Yes; if a mill exported, say, prior to 1964 the mill got the drawback.

Senator JORDAN. The mill got the drawback, that is correct.

The CHAIRMAN. I get you.

Senator JORDAN. But he was selling his cloth in competition with the foreign mill. He had to get that, you see, in order to get him on an equal basis. If he hadn't he would not have sold any cloth at all.

The CHAIRMAN. I don't see why this Government should pay a further subsidy to anyone for the sale of cotton abroad, whether it is finished or not. I just can't see that.

Mr. SCHWARTZ. Well——

The CHAIRMAN. You had better make a better case, I mean for the record as far as I am concerned. I don't see why since the Government is selling cotton, raw cotton to the textile mills at the same rate that they sell it abroad, that in itself is a subsidy amounting to from \$32 to \$35 a bale.

Now, what you want is an additional subsidy for whatever you sell abroad that is manufactured from this one-price cotton program.

Mr. SCHWARTZ. In lieu of the mill passing on some of that subsidy so that we can compete with the foreign producers. If they don't do that, there is a formula that has to be considered.

The CHAIRMAN. Any further questions?

Thank you.

Mr. SCHWARTZ. Thank you.

(Mr. Schwartz's prepared statement is as follows:)

I speak in behalf of independent wholesale exporters of textiles, in the form of piece goods, remnants, and pound goods, who play an important part in the final distribution of the end-products made possible by the cotton farmer.

Until 2 years ago, under the cotton products export program, the beginnings of a growing and flourishing business in textile exports was made possible, under a sliding scale of incentive payments, the chief purpose of which was intended to equalize the American cotton price with the lower world market price, and thereby encourage and develop foreign trade in textiles.

After the passage of the Agricultural Act of 1964, the cotton products export program was discontinued, and in lieu thereof it was intended that the "one-price cotton" subsidy paid to the mills, would accomplish two desirable objectives, one of which would enable the mills to pass on the subsidy to the export trade, to meet the competition of lower world market cotton prices.

We regret to report that no part of this subsidy was passed on to the independent wholesale exporters, through a reduction in the price for piece goods and remnants which the exporter was required to pay to the mill; as a matter of fact, the price for many types of textiles was increased.

This sharply reduced the volume of business of this important branch of the industry and began to destroy the base of a flourishing export business. The situation can be dramatized by the following summary figures.

In 1963, the last full year for the export equalization payments, the independent textile export industry shipped out to 40 countries a total of 30 million pounds of cotton remnants (equivalent to 120 million square yards). In 1964, without the benefit of any equalization incentive for the last half of the year, the total dropped 25 percent to 22.5 million pounds of remnants (or 90 million square yards), shipped to 17 countries only. Projected against the official figures for the first quarter of 1965, the trend for the current year indicates a total export of approximately 13 million pounds, a further loss of 40 percent from last year (or a loss of 56 percent from the 1963 total under the export equalization payment program).

In addition to the remnants category (under 10 yards), the wholesale export jobbers also handle a substantial share of exports of piece goods (over 10 yards), in seconds and first quality grades, conservatively estimated for 1963 under the export equalization payments at 100 million square yards. Added to the above, synthetic textiles and pound goods (under 1 yard which grades were not under incentive payment), accounted in 1963 for approximately 60 million square yards exported to most of the 40 nations that comprised our market for piece goods and remnants. All of this business has dropped sharply to below 50 percent, based on current year projections.

Thus, we are dealing with an industry that in 1963 exported a total of approximately 280 million yards of textiles, with a total value of \$75 million, whose business has declined to the danger point of less than 50 percent; an industry whose potential, under a restored incentive program, could exceed more than

\$100 million, and recapture and develop many of the 40 countries that had been served in 1963.

Whether the legislative principle involves an extension of the one-price cotton formula, in practice it will make no difference to the independent wholesale exporter whether the grower or the mill gets the subsidy. The effect on our branch of the textile industry will be to aggravate the economic danger to the exporter, unless an incentive or equalization program is adopted, as heretofore, to put us in a position to compete in export markets with foreign textile producers and exporters, who have the benefit of the lower world price of cotton, lower labor costs, and in many cases, Government subsidies and other assists to competition, while here our export operation is penalized, in effect.

As additional justification for our petition, permits us to cite three basic facts which we believe are consistent with national policies approved by Congress.

1. EXPORT EXPANSION

Since it is congressional policy to encourage and expand exports, we respectfully urge that the services of an industry that devotes its full time to the export of textiles, should not be overlooked as a major instrumentality in expanding the export objective. This industry has made, and can continue to make with appropriate incentives, a substantial contribution to the solution of the balance-of-payments deficit. It is our conviction that for every equalization dollar extended to our industry, we will bring back \$10 and more, through the export business developed.

2. SMALL BUSINESS

If it is congressional policy to encourage and protect small business in our national economy, we point out that the independent textile exporters are all small business, by any congressional or departmental definition, and are entitled to consideration in the formulation of any basic cotton policy. If the downward trend, indicated above, continues, many of approximately 250 firms in this export industry will go out of business.

In addition there are as many as 1,000 general export houses and commission houses who, though not exclusively engaged in the export of textile products, handle a substantial amount of cotton textiles, new and used clothing and other textile products.

It is hoped that the legislative goal will be to keep the thousands of employees of these firms, continuously at their tasks, because their knowledge and specialized export experience cannot be quickly or easily replaced, once released.

3. COMMUNIST COMPETITION

If it is congressional policy to help "win friends" for the United States, we call attention to the unparalleled instrumentality available in our industry, to meet the commercial challenge of Iron Curtain countries. The emerging and the underdeveloped countries are the best markets for textile remnants and seconds, in addition to first-quality piece goods. The Communist countries as well as other totalitarian countries where industry is state controlled, pay a great deal of attention to these areas, especially Asia and Africa, using textiles for propaganda purposes (because these goods are intimate to the people whose backs are covered with the end products of the textiles), and for political purposes (by securing foreign exchange to develop programs against us).

It should be pointed out that the U.S. textile mills are mainly domestically oriented; their export departments, entirely incidental to the domestic volume, are not interested in this type of export challenge. Only the independent textile exporter has devoted his full time, and is experienced, in continuing this function. The potential awaiting the independent exporter, is represented by the difference between the 40 countries that were covered by our industry in 1963 (when the export subsidy for textiles was in effect) and the 17 countries that were left in 1964 (after the export subsidy was discontinued).

With a reasonable export equalization formula to compete with the world market price and to cover part of the extra costs of developing export business, especially in underdeveloped areas, the independent American exporters have the capacity to regain and enlarge these markets, and the experience to meet the challenge of the Iron Curtain competitors.

The justification for equalizing the extra costs in developing export markets is based on general recognition that it costs more to handle foreign trade than

domestic business. These extra costs include personnel with experience in foreign languages and trade customs; extensive travel expenses; shipping samples by airmail; increasing ocean freight; and other hidden costs. It may be recalled that this situation was recognized officially during the price schedules of OPA history, when an extra allowance of 8 percent was permitted to cover the extra costs of developing a foreign order.

We need encouragement not only to survive, but to develop as useful instrumentalities in expanding foreign trade, in contributing substantial millions of dollars to the balance-of payments deficit, and in meeting the challenge of totalitarian and Communist competition.

We therefore ask your cooperation and expertise to develop and include a fair export incentive formula in any cotton legislation. We urge you, respectfully, not to overlook the constructive potential which we represent in our national economic and political policies. We are ready to work with you and your staff to accomplish these purposes, by supplying a committee of industry experts.

The CHAIRMAN. The next witness is Mr. Davis, Robert T. Davis, Jr.

Senator TALMADGE. Mr. Chairman, it gives me a great deal of personal pleasure to welcome to our committee a longtime warm personal friend, Mr. Robert T. Davis, Jr., who is executive vice president of Swift Spinning Mills, Inc., of Columbus, Ga. That is one of our leading and most progressive textile mills in our State. He is appearing here today on behalf of the Carded Yarn Association, the Combed Yarn Spinners' Association.

Bob was one of the alltime great athletes at Georgia Tech, finished there, I believe, in 1947. He has served as mayor of his city of Columbus, Ga. He has always been identified with all of the progressive things in his area, civic affairs, government, and in business, and I am sure he will make a fine statement to our committee today.

I regret I won't have an opportunity probably to hear all of his testimony because I am running late now for an appointment, but it is a pleasure to have him appear.

Bob, just sit down and you can proceed whenever you are ready. Do you want these gentlemen to sit here with you?

Senator JORDAN. Mr. Chairman, I would like to join with Senator Talmadge in that statement about Brother Davis. I have known him for many years as a very fine competitor. He was always a little smarter than us on price. That is probably why we have some of the problems we have around here now about this export business.

He is a grand fellow and represents a great mill and a great industry and I am delighted to hear him testify and join with my friend, Senator Talmadge, in the kind words he said about him.

STATEMENT OF ROBERT T. DAVIS, JR., ON BEHALF OF CARDED YARN ASSOCIATION AND COMBED YARN SPINNERS' ASSOCIATION, COLUMBUS, GA.

Mr. DAVIS. Thank you, sir.

The CHAIRMAN. Proceed.

Mr. DAVIS. Mr. Chairman, my name is Robert T. Davis, Jr., and I am executive vice president of Swift Spinning Mills, Columbus, Ga. I have with me today Mr. George Stowe from Belmont, N.C., who is president of the Combed Yarn Spinners' Association and Mr. Ernest Rees, president of the Carded Yarn Association from Fayetteville,

Tenn., and Capt. James H. Campbell who is the executive vice president of both associations.

I appear here today as spokesman for the Carded Yarn Association of which I am first vice president and the Combed Yarn Spinners' Association. These two trade associations represent some 200 mills engaged in the production of sales yarn from cotton and other fibers. Unlike those mills that spin yarn and weave it into fabric, our members' only product is yarn.

Our customers are principally knitters and weavers who manufacture such consumer items as underwear, sweaters, hosiery, carpets, industrial fabrics, coated fabrics, upholstery, and many other products. Their plants are to be found all over the Nation, varying in size from a hosiery firm, with only a few employees, to large weavers who need to supplement their own spinning production.

We are pleased to have this opportunity to tell you the beneficial effect the Agricultural Act of 1964 has had on our segment of the textile industry. We have consumed more cotton. We have granted three 5-percent wage increases. And we have seen our product move into the market at reduced prices. These achievements have come as a result of the one-price cotton policy established by the Congress last year.

Sales yarn spinners usually consume about one-fourth of the cotton used by the domestic industry. During the 12-month period beginning April 1, 1964, we consumed 2,020,000 bales of cotton. This represented an increase of consumption by about 200,000 bales. This increase we attribute to the Government policy which enabled us to buy cotton at the same price at which it is exported. If cotton had not become competitive in cost, it is my belief that our consumption figure would have been considerably less, in fact the passage of the one-price cotton bill reversed a downward trend.

Yarn prices are extremely sensitive to raw cotton costs because, on an average, more than 50 percent of the selling price is accounted for by the amount we pay for raw cotton. And they are also influenced by market conditions—the play of supply and demand because of many small producing units.

The CHAIRMAN. Would you be able to tell us to what extent did you increase the use of manmade fiber during the same period that you say you increased cotton?

Mr. DAVIS. I cannot give you an accurate figure but I can give you a personal one.

Prior to one-price cotton we were using a fair amount of rayon blended with cotton which we sold to a weaver. Since the passage of one-price cotton we have not had 1 pound of rayon in the mill. We are running some polyesters and acrylics which can blend with cotton.

The CHAIRMAN. To what extent have you increased that manmade fiber?

Mr. DAVIS. It has remained almost static and we just finished a new mill the other day that will consume 15,000 bales a year of cotton, all cotton. It is capable of running fibers but it is our intent to run only cotton.

The CHAIRMAN. Proceed.

Mr. DAVIS. We have a chart up here that you might refer to.

During the latter part of 1962 when Congress first began consideration of one-price cotton, yarn as represented by a common yardstick, 20/1 carded, was selling at average price of 64 cents per pound.

And, during 1963, edged downward to 63 cents in November even though a wage increase went into effect. The price remained at 63 cents until one-price cotton became effective, then dropped immediately, and by July of 1964 was 58.7 cents per pound, or a reduction of over 4 cents per pound. In other words, Mr. Chairman, the price of sales yarn promptly reflected the lower raw cotton costs and remains so today.

During this period, two additional wage increases were granted, or a total of three in less than 2 years. These increases amounted to an average of over 2.5 cents per pound.

In summary, these direct wage increases plus reduction in sales yarn prices are in excess of the equalization payment of 6½ cents a pound under the 1964 act.

It should be borne in mind that the difference between cotton costs and the prices the industry receives for yarn does not constitute profit alone. The difference covers wages, taxes, interest, insurance, chemicals, freight, depreciation on machinery, return on investment, and other expenses. To regard the differences as either gross or net profit is not only misleading but also inaccurate.

From our standpoint, the one-price cotton system stimulated the entire textile industry and, coupled with other economic factors, brought about a strong market for yarns.

We have been enjoying good business and foresee a continuation if one-price cotton is extended at least for a longer period than 2 years.

We have found it sound to expand and update our production facilities. And, there is little doubt but that we will continue on this tack unless we encounter uncertainty as to the competitive ability of cotton. We believe this situation is favorable for products and other segments of the raw cotton industry.

We recommend to you a continuation of one-price cotton in whatever cotton law is enacted. Early action would be beneficial. The board of directors of both associations directed me to express their hope that any new cotton program will ultimately provide a free cotton market and remove the Government from buying, warehousing, and selling cotton.

(The attachment referred to follows:)

Wholesale prices, raw cotton, and knitting yarn, monthly, 1962-65

[Cents per pound]

	Yarn, carded knitting 20/1	Raw cotton spot market prices ¹	Raw cotton equalized prices ²
1962:			
January	66.40	33.60	
February	66.40	33.66	
March	66.40	33.75	
April	65.90	33.85	
May	64.70	33.88	
June	64.70	34.09	
July	64.40	33.98	
August	64.40	33.36	
September	63.70	33.02	
October	63.50	33.01	
November	63.50	32.98	
December	63.58	33.13	
1963:			
January	63.20	33.42	
February	62.60	33.75	
March	62.20	34.04	
April	62.70	34.11	
May	62.50	34.13	
June	62.50	33.91	
July	62.50	33.43	
August	62.50	33.17	
September	62.50	33.09	
October	62.70	33.08	
November	63.00	33.11	
December	63.50	33.15	
1964:			
January	63.50	33.22	
February	63.50	33.30	
March	63.20	33.38	
April	61.60	33.41	26.91
May	60.40	33.37	26.87
June	60.40	33.27	26.87
July	58.70	32.57	26.07
August	58.70	31.20	24.70
September	58.80	30.67	24.17
October	58.40	30.58	24.08
November	58.40	30.58	24.08
December	58.60	30.57	24.07
1965:			
January	58.60	30.56	24.06
February	58.30	30.63	24.13
March	58.30	30.72	24.22

¹ Through July 1962, 14 markets; 15 markets thereafter. Average prices for Middling, 1 inch at designated spot markets.
² Spot market prices reduced by 6.5 cents per pound beginning on Apr. 11, 1964.

Source: Bureau of Labor Statistics, U.S. Department of Labor, and U.S. Department of Agriculture.

The CHAIRMAN. What is the difference in the price of the manmade fiber that you use in contrast to cotton?

Mr. DAVIS. Well, rayon—

The CHAIRMAN. Start with rayon, what is the difference in price?

Mr. DAVIS. Rayon sells for 28 cents a pound.

The CHAIRMAN. Twenty-eight?

Mr. DAVIS. That is cleaned and that is 1⁹/₁₆ inch. In other words, you get the same staple that you get with pima cotton so you are talking about 1⁹/₁₆-inch staple, uniform in diameter, and you have practically no waste. You see on carded yarn we will have approximately 15 percent waste.

The CHAIRMAN. Well, what is the difference in your costs if you use the manmade and the cotton?

Mr. DAVIS. You are comparing it with rayon?

The CHAIRMAN. With rayon and then with the others.

Mr. DAVIS. Our manufacturing costs are relatively the same. We bypass some of the cleaning that is necessary for raw cotton.

The CHAIRMAN. Give me the difference, if you can, in the price that you must pay for man made in contrast to your—to what it costs you for the cotton.

Mr. DAVIS. Well, for instance, if you were making a given yarn out of rayon today you would figure a waste factor of 2 percent or possibly 3. So you would be talking about a stock cost of less than 29 cents a pound.

Now, currently we are paying with P.I.K.'s off around 28½ cents for some of our cotton going into carded yarn. To that you would add 15 percent waste which would be a little over 4 cents so you would have a clean-stock cost of 33 cents; is that about right, 32½ to 33 cents.

The CHAIRMAN. For the cotton yarn?

Mr. DAVIS. Yes, sir.

The CHAIRMAN. In contrast to 27?

Mr. DAVIS. Less than 29.

The CHAIRMAN. For rayon?

Mr. DAVIS. Yes, sir, that is a hundred percent rayon yarn there, and it is made in the same manner as cotton yarn except you bypass some of the cleaning.

The CHAIRMAN. I understand.

What is the difference in the price of your cotton yarn in contrast to the other manmade yarns that you use or make yourself.

Mr. DAVIS. The acrylics are generally selling in the neighborhood of 80 cents, 80 cents a pound.

The CHAIRMAN. Eighty cents in contrast to cotton at 33 cents?

Mr. DAVIS. That is right.

The CHAIRMAN. What other manmade yarn do you use?

Mr. DAVIS. Well, the polyesters, I believe the price is 94 cents.

The CHAIRMAN. 94 cents a pound?

Mr. DAVIS. Yes, sir, and in nylon the staple is about 96, I believe, it has dropped recently.

The CHAIRMAN. So that except for rayon the price of other man-made fibers that you use is almost three times the price of cotton yarn?

Mr. DAVIS. Raw material cost is; yes, sir.

The CHAIRMAN. Yes, that is what I am talking about.

Mr. DAVIS. You do not have the waste. You also have the synthetic—

The CHAIRMAN. Wait a minute, in the price you gave me of 33 cents I thought you had also included the waste.

Mr. DAVIS. I did.

The CHAIRMAN. I thought you did. That is what I understood you to say.

Mr. DAVIS. The other point, if I may, sir, a company manufacturing an acrylic fiber will oftentimes spin 20 to 30 cents a pound in promotion of that fiber with some of the ultimate users. They won't spend it with us as a spinner, but now you do not have that sort of backing for cotton in the promoting of fiber in a product.

The CHAIRMAN. Why would they use a yarn that costs them three times more than cotton?

Mr. DAVIS. It offers other advantages than cotton, that cotton does not.

The CHAIRMAN. Yes.

Mr. DAVIS. With most of the acrylics we are using now we are blending with cotton. In one instance 25 percent acrylic, 75 percent cotton and the other 50-50.

The CHAIRMAN. Well, I don't suppose you ever expect to get the price of those manmade which you were just speaking about now, that are almost three times more than cotton yarn, to ever sell as low as the cotton yarn?

Mr. DAVIS. I would not make such a statement; no, sir. I recall in recent years paying over \$1.60 for dacron, for instance, and it is less than a dollar a pound.

The CHAIRMAN. So that would you say that the only competitor that cotton has of any consequence in manmade is the rayon?

Mr. DAVIS. No, sir.

The CHAIRMAN. What else have you got?

Mr. DAVIS. Well, I would say this, that synthetic fibers, because of price stability, because of promotional——

The CHAIRMAN. But they cost three times more than cotton?

Mr. DAVIS. But they have——

The CHAIRMAN. Are there any others?

Mr. DAVIS. They have had a downward trend, they have had a downward trend in price, because of promotion, because of price stability and other things that they add all of them are a threat to some portion of the cotton consumption.

The CHAIRMAN. You mean even though that yarn would sell for two and a half to three times more than cotton yarn you would go to the other?

Mr. DAVIS. It wouldn't normally sell for that much more. The raw material is maybe two to three times as much but your manufacturing cost is actually slightly less.

The CHAIRMAN. What do you mean by manufacturing costs, of what?

Mr. DAVIS. The cost of converting the raw cotton or the synthetic fiber into a yarn is actually less because you do not have to——

The CHAIRMAN. What I would like to get from you, if you will, if you have the information, I would like to compare the price on a per pound basis or anyway you want to do it of the yarn, the price of the yarn that you manufacture from cotton in contrast to rayon, in contrast to any other manmade fiber, fabric.

Mr. DAVIS. All right.

The CHAIRMAN. Taking everything into consideration, loss and so forth, because that is what I intended to ask you awhile ago and, as I recall, you said that the cost would be about 33 cents per pound for cotton yarn, taking all losses into consideration——

STATEMENT OF GEORGE W. STOWE, JR., PRESIDENT, COMBED YARN SPINNERS ASSOCIATION, BELMONT, N.C.

Mr. STOWE. For cotton yarn, not for cotton.

The CHAIRMAN. For the three that you mentioned, I do not recall the names of them, but it ranged from 90 to 94.

Mr. DAVIS. From 90 to 94.

The CHAIRMAN (continuing). Which amounted to a cost $2\frac{1}{2}$ to 3 times more than cotton.

Mr. DAVIS. Yes, sir. I take a 20 single carded knitting, which would be from 58 to 60 cents a pound, as shown on the chart, a 20 single made from 100 percent orlon, which is 80 cents per pound, which sells in the neighborhood of \$1.20 or slightly less, so it is not any more than twice as much in the finished yarn even though the fiber is almost three times as much or greater than two and a half times.

The CHAIRMAN. What about cotton if you put the same strands—

Mr. DAVIS. I am talking about comparable yarn as far as size is concerned.

The CHAIRMAN. So that in any event the yarn from manmade material will cost a good deal more than the yarn made from cotton.

Mr. DAVIS. In most instances, yes.

Mr. STOWE. Senator, may I make a statement?

The CHAIRMAN. I want to get it in the record if I can because it is being said now that you are being driven out of business because of the high cost of cotton, and here you come and tell us that this yarn is, to me it is, much higher in price than your cotton yarn.

Senator RUSSELL of South Carolina. Do they end up as a comparable product, though?

Mr. STOWE. That is what I was going to bring up now.

Senator RUSSELL of South Carolina. They do not end up as a comparable product, Mr. Chairman.

The CHAIRMAN. Well, I know. But are we supposed to sell cotton to compete with a manmade fiber? You will never get anywhere doing that.

Senator RUSSELL of South Carolina. Some of these manmade fibers end up in competition with silk, for instance.

The CHAIRMAN. And you can expect that. You can expect that just the same as the automobile.

Senator RUSSELL of South Carolina. Or wool.

The CHAIRMAN. Just the same as an automobile competed with the buggy makers and the wagon makers and all of that. You cannot compare it. It is a different product altogether.

But I would like to get your—unless you want to expand—excuse me.

Mr. STOWE. I wanted to say practically the same thing the Senator said. These yarns that are high priced, made from high-priced fibers, are not truly in competition with cotton. They are wool substitutes and silk substitutes. They are not—

The CHAIRMAN. What is in competition?

Mr. STOWE. Rayon.

The CHAIRMAN. What manmade fiber?

Mr. STOWE. Rayon principally.

Mr. DAVIS. Rayon primarily.

The CHAIRMAN. What do you have to pay for rayon now?

Mr. STOWE. 29 cents, I believe. I do not use it.

Senator JORDAN of North Carolina. You can get all you want for 24 cents, imported rayon laid down at the port, 24 cents.

The CHAIRMAN. Imported.

Senator JORDAN of North Carolina. Well, any kind. It is good rayon.

The CHAIRMAN. How is the demand for rayon in comparison—how does the demand for rayon compare with cotton insofar as the use of the cloth that you make from it is concerned?

Mr. DAVIS. In certain end uses rayon has made a great inroad on cotton. One of our big end uses is underwear for infants, children and men and women's underwear, and there has been very little gone into those sort of garments.

The CHAIRMAN. In the last year to what extent have you decreased the use of rayon?

Mr. DAVIS. In our instance we cut it out altogether. We were running some 10,000 or 20,000 pounds a week.

The CHAIRMAN. Are you speaking of your own mills?

Mr. DAVIS. I am speaking of my own mills, personally there.

The CHAIRMAN. You represent quite a few others here.

Mr. DAVIS. Yes, sir.

The CHAIRMAN. An association. What is their story?

Mr. DAVIS. I think that the trend has been stopped, and it is actually going back toward more cotton. We manufacture a basic product that is desired by our customers who are knitters and weavers. We must make what they want and, of course, they must make what the ultimate consumer wants. The consumer, I think, will buy cotton goods if it is competitively priced, if we have got a program that we can live with over a long period of time and is not one of these things we must wonder about from year to year as to whether we are going to put in the machinery to handle it or whether we are not going to put in the machinery and go to rayon or what have you.

The CHAIRMAN. Well, is it your view that the customer desires cotton instead of rayon?

Mr. DAVIS. For certain end uses, very definitely he desires cotton. But if cotton is not competitive——

The CHAIRMAN. Well, that competitive business, what difference would it make in a yard of any kind of yarn, I mean any kind of goods, with a differential of less than 2 cents?

Mr. DAVIS. In this instance, I believe we are talking about 4-cent cotton versus rayon, 29 versus 33.

The CHAIRMAN. 4 cents. What difference would it make in costs to the consumer?

Mr. DAVIS. Ultimately in the price of the finished goods I do not know what it would reflect. It unquestionably would be small.

The CHAIRMAN. Very small.

Who determines that? When they come to buy usually they will purchase a piece of goods that they like. They do not ask whether it is rayon or whether it is this or that, do they?

Mr. DAVIS. Yes, sir; they do. They do in most instances. The housewife is very particular about the garment she buys. For instance——

The CHAIRMAN. And they prefer cotton?

Mr. DAVIS. For many things, yes, sir. In fact, I know of very few mothers who will buy a synthetic garment to put on a baby. Practically all your cotton sleepers for children are cotton.

The CHAIRMAN. Now what about the—what is the attitude when you are selling this high-priced manmade synthetic?

Mr. DAVIS. Normally, when we sell a customer of ours a high-priced synthetic yarn he has bought it because one of the large chain stores has come to him for a particular garment which has been promoted by the synthetic producer with the chain store. We do not make up a synthetic blend yarn and then go offer it for sale.

As I mentioned a minute ago, we must make what our customers want to buy, and we can sell at a profit. So the two big programs that we have with acrylics and combed cotton today are going to two of the large chains where the chain has been approached by the synthetic people, the synthetic people on the chain have approached the knitter, and we have ended up making the yarn.

The CHAIRMAN. Well, to what extent is the yarn reduced in price? Do they make you a proposal of so much a pound or what induces you to use these other manmade fibers, do they furnish you the yarn or the material?

Mr. DAVIS. No, sir; we must go buy that.

The CHAIRMAN. Do they offer you a price in advance?

Mr. DAVIS. Sometimes they do and sometimes we quote them a price, and never do the two meet, but we get together somehow.

The CHAIRMAN. Well, it would seem to me if the textile mills of our country would take a little more interest in selling cotton we would not be in the fix we are today.

Mr. DAVIS. We just spent \$3 million to build a brandnew mill to run only cotton, and we hope that is all we ever put in it.

The CHAIRMAN. I just cannot understand at all the argument that is being made now. We find out now that the only true competitor you have with a manmade yarn is rayon, that is it, no other.

Mr. DAVIS. From a price standpoint.

The CHAIRMAN. No other.

Mr. DAVIS. From a price standpoint.

The CHAIRMAN. That is what I am talking about.

Mr. DAVIS. You see, we have many competitors. We even compete with the paper industry and the plastics industry, and all those others.

The CHAIRMAN. You mean such as bags and things like that?

Mr. DAVIS. That is right; yes, sir; automotive upholstery now.

The CHAIRMAN. Of course, you have the same competition, I guess, in tiremaking. They use rayon now instead of cotton because it is better.

Mr. DAVIS. That is right; and rayon is about to lose the market to nylon and polyesters.

The CHAIRMAN. That is what you can expect.

Mr. DAVIS. We are very competitive as an industry, and we have shown more productivity gains than any industry in the country.

The CHAIRMAN. It is my judgment if the same efforts were put forth by the people in this country who sell these goods like the manufacturers you speak of, in other words, to make cloth from a certain manmade fiber, if the same effort were used, I believe you could expand cotton as well as these others.

STATEMENT OF ERNEST REES, JR., PRESIDENT, CARDED YARN ASSOCIATION, FAYETTEVILLE, TENN.

Mr. REES. Senator, I think the cotton council is doing this, and I think it is a very fine move.

Mr. DAVIS. It would be a little difficult for the Federal Government——

The CHAIRMAN. It is not reflected so much that you are using so little cotton even at this cheap rate, I mean at the reduced rate, that was made available under the 1963 act.

Mr. DAVIS. We have increased our use over 60 percent.

The CHAIRMAN. The whole thing would be around 800,000 bales. It was estimated that you would use 1.1 million bales more.

Mr. DAVIS. But we have stopped this trend. Instead of losing 500,000-plus, we added 800,000 more.

The CHAIRMAN. Well, now, as I recall the figures, the Department estimated that with the bill that I introduced and tried to have enacted by the Congress, that the additional use of cotton under that bill would have been 600,000 bales, because it lowered the price to some extent, and the increased consumption according to their figures, was 800,000. But with the bill you have got, which made it possible for you to purchase cotton at a cost to the Government of over \$325 million because that was about the difference between the support price and what you paid for it with that program, you used only 800,000 bales more.

Mr. DAVIS. Yes, sir. I agree with all of it, but we have just had 1 year under it, and I think with the increase that we have been able to reflect so far in consumption, the decrease in prices, the increase in wages, the increase in capital expenditures indicate that the industry does have confidence in cotton.

The CHAIRMAN. Why did you increase those wages? Was it because you got cheaper cotton?

Mr. DAVIS. No, sir. It was because the lower priced cotton stimulated business, and business was better.

The CHAIRMAN. And you got more to do. You needed more labor; is that it?

Mr. DAVIS. Yes, sir. Our labor is very competitive.

The CHAIRMAN. Well, you speak of competition between you and Senator Jordan who is on this committee. What difference would it make between you and Senator Jordan if cotton sells at the same price for any of these yarns? Is it a matter of getting a better mill or better management or what have you, and not the price of the material you purchase?

Mr. DAVIS. The price of the material we purchase has all to do with it.

The CHAIRMAN. No; but I mean between the mills in America here. If they all buy their cotton at the same price or virtually the same price, whether it is 10 cents a pound or 20 cents a pound or 50 cents a pound, that competition would exist between the mills, the domestic mills, in this country.

Mr. DAVIS. That is right. It would not make any difference if it was between Senator Jordan and me. But if it was like it was before

it sure would make a lot of difference between some of them that are across the water and send it in here.

The CHAIRMAN. We are not talking about imports now of goods. We are just talking about the manufacturing costs of the cotton.

Mr. DAVIS. It would not make any difference between us, but if it was higher priced it would definitely have some effect in getting less of the consumer's dollar.

The CHAIRMAN. You would sell less.

Mr. DAVIS. Yes, sir.

The CHAIRMAN. Any further questions?

Senator JORDAN of North Carolina. Mr. Chairman, I would like to say when Bob sat down I did not notice he had my friend George Stowe in here. I knew he was in the House. But George has been a good friend of mine for many years. He lives in Belmont. I expect my brother and I helped raise him, but he turned out real well, and we are delighted to have George up here today. George is an expert spinner.

Mr. Rees there is president of the Carded Yarn Association who lives over in Tennessee.

But there is one thing that has not been brought out here, that the cotton textile people have tried every means that they know to promote the use of cotton in every way possible. They spend thousands of dollars every year on the Maid of Cotton contest. I am sure this young lady over here knows about that. You have seen a picture made of it, and we are awfully proud of it, and she is selected by a very discriminating committee for personality, looks, and everything. She travels all over the world, doesn't she, George, nearly every civilized country in the world promoting the use of cotton.

I want to go a little further into this thing. There seems to be a little confusion as to what the price of nylon and rayon has got to do with the price of cloth. I suggest that if you would ask that charming young lady over there what kind of stockings she has on she would not tell you that they are cotton. They are nylon. You won't find a pair of cotton stockings up here on the Hill; you won't find a pair in Washington. Women buy no cotton underwear today. That is all they used to buy, because that is all there was. But they do not buy any today. They do not buy cotton slips. They do not buy any of those items because they do not want them.

The CHAIRMAN. But cheaper cotton will not make them buy any more.

Senator JORDAN of North Carolina. That has not got a thing in the world to do with it. Your suit and my suit, most of the suits, probably have got 45 percent dacron in them. It is cheaper than wool, and they say it is better. If you don't believe it, drop a cigarette on it, and see what kind of a clean hole you can get, just a clean hole, not burn a singe, just burn a clean hole. But it stays pressed better.

The American manufacturer, I would ask George and Bob and all these people to say if I am not correct, the manufacturer has mighty little to do with what he makes today. The consumer decides what he is going to buy what is advertised and put on the counter. If the merchant does not buy it it is never sold. He tells us what he wants, and usually because Mr. du Pont has spent several million dollars

advertising, and that is the problem, so you make what the man says he wants. But, at the same time, your big competitor is still rayon.

The CHAIRMAN. Senator, don't you think that this would have taken place irrespective of the price of cotton?

Senator JORDAN of North Carolina. No.

The CHAIRMAN. No matter what you sell cotton for this lady that you speak of will not wear cotton stockings.

Senator JORDAN of North Carolina. That shows you the synthetic fibers have nothing to do with what they are going to go into. It is the use they are put to.

The CHAIRMAN. I have before me the use of cotton, say, from 1953 to 1954. During that year the mills utilized 8,445,000 bales; next year 8,714,000 bales. The next year 9 million. What was the price of rayon, I wonder, at that time? Why was it they used more cotton at that time or you did not use rayon or these other synthetics, is it because it did not exist or what?

Mr. DAVIS. Rayon was higher in price, I think this is correct, at that time. This was just prior to the two-price cotton, too.

The CHAIRMAN. Oh, no. This was 5 or 6 years before.

Senator JORDAN of North Carolina. I can tell you another reason, Mr. Chairman. I can give you the best reason on that. Coming back to——

The CHAIRMAN. You have here in 1959-60 before this program went into effect, you consumed 8,910,000 bales, and then in 1961-62 and consumed 8,859,000 bales, and in 1962-63 you consumed 8,316,000 bales, and in 1963-64 8,511,000 bales.

Mr. DAVIS. Well, during all this time rayon had been, the manufacture of it had been, refined, they had more nearly duplicated a lot of the features of cotton, and what they call their high modulus, and their special types of rayon which are fast on the move, and that is why I feel that if cotton is allowed to drift to a higher price the synthetic folks will be able to modify rayon in the not too distant future where it would be hard for an expert to tell the difference.

The CHAIRMAN. So that even those who wear it, although they prefer cotton, they would go to rayon?

Mr. DAVIS. Yes, sir. I feel confident that cotton would be priced out of the market.

Senator JORDAN of North Carolina. Mr. Chairman, that is what I wanted to say at that point.

The CHAIRMAN. I do not believe we can compete with that kind of program.

Senator JORDAN of North Carolina. Two or three years ago, you can go and look at any fabric made, and they had instructions to use such and such kind of soap, iron it with a cool iron. Today they have developed this rayon to a place where a great deal of it is stronger wet than dry, isn't that true?

Mr. DAVIS. Yes, sir.

Senator JORDAN of North Carolina. That has been a recent development. They are gaining in grades. You can put them in fabric today that you could not before. For instance, 2 years ago you could not have used rayon in work clothes. It would come all to pieces and nobody would dare put it in there, the manufacturer wouldn't.

The CHAIRMAN. They will make it so that it will be a real competitor of cotton and put you out of business in time to come; isn't that right?

Senator JORDAN of North Carolina. This synthetic program is going to be much more detrimental to the cotton grower than it is to the cotton manufacturer. We can spin anything. I have spun rabbit hair, feathers. It does not make any difference, you can spin them.

Mr. DAVIS. It does not make any difference. Synthetic fibers, when blended with cotton, do give added value and added benefits to the particular yarn and, therefore, in a way they tend to encourage the use of cotton.

One big program today is with 65 percent dacron and 35 percent combed cotton. I do not know how much those fabrics may have replaced cotton, but the popularity of them, and the consumption of them, is eating a lot of bales of cotton. So in many instances the synthetic fibers do add to and actually assist in the selling of cotton.

The CHAIRMAN. Any further questions? If not, we thank you very much, Mr. Davis.

Mr. DAVIS. Thank you, sir.

The CHAIRMAN. All right. Dr. Smith. Is Dr. Smith present?

All right, Mr. Reynolds and Mr. Miller. Will you two step forward?

STATEMENT OF JOHN ARTHUR REYNOLDS, EXECUTIVE VICE PRESIDENT, WESTERN COTTON GROWERS ASSOCIATION OF CALIFORNIA, FRESNO, CALIF., AND RUDOLPH MILLER, SECRETARY, IMPERIAL COUNTY GROWERS ASSOCIATION, EL CENTRO, CALIF.

Mr. REYNOLDS. My name is John Arthur Reynolds, and I live in Fresno, Calif. I am executive vice president of the Western Cotton Growers Association of California. Mr. Miller is secretary of the Imperial County Growers Association. I thank you all for the privilege of appearing here. I wish to present the rough outline of a proposal unanimously adopted by the boards of directors of my association and of the Imperial County Growers Association for presentation to this committee. I ask your permission to read a prepared statement. Then Mr. Miller would like to make a brief statement.

First, I wish to say that the cotton people who appear here should eat humble pie before the distinguished chairman of this committee. We must be frank. The act of 1964 did not work out just the way we thought it would.

We are not here to criticize anyone nor to spend our time placing the blame. All of us in the cotton industry are in a sense to blame for the present situation. If we are not here to blame, neither are we here to dissect proposals of other persons or groups or to compare them favorably or unfavorably with our own.

We are not here to castigate the Department of Agriculture nor the Secretary of Agriculture. We feel he has performed a real service to the industry in presenting the seriousness of the situation, the need for immediate action, and for bringing out the facts which, however disagreeable they are, must be faced by us.

We wish to put our proposal on the table along with the others for consideration by this committee. I would like to preface our pro-

posals with a brief general statement. It is easy to look back and see our mistakes.

First of all, it seems apparent that for a number of years the high price supports for cotton in this country held the umbrella over foreign producers and enabled them to vastly increase their production and take our markets away from us. Furthermore, the restrictions on American production plus the umbrella over foreign production forced American capital abroad, often aided by many millions of U.S. Government funds, in the development of cotton producing areas in the world.

Second, the high price of cotton at home held the umbrella over synthetic products and they stepped in with lower prices and newer fibers and aggressive advertising to capture much of the domestic market.

The export subsidy enacted some years ago did help, of course, in protecting our export market. And the equalization fee passed last year has been a great factor in stopping the downward skid of and in regaining lost domestic markets. Yet, Mr. Chairman, as we all know, in spite of both of these things, and in spite of the hundreds of millions of dollars of taxpayers' money poured out through them, we have now reached the critical situation so ably presented by the Secretary of Agriculture. We are simply faced, if nothing is done, with the largest carryover in the history of the cotton industry, and with the largest pile of Government-owned cotton in the history of the world, cotton which, for the most part, completely has been passed over by the textile mills because they did not want to buy it.

We think that it is clear that (1) the cost of the cotton program must be reduced; (2) Government stocks must be reduced; and (3) cotton must be kept on a competitive basis with textile mills both at home and abroad. With these three premises we agree and we feel that they can be accomplished:

(1) Within the general principles established in existing legislation; namely, the domestic allotment idea and voluntary reductions in plantings; and

(2) Without across-the-board compulsory reductions and restrictions upon individual growers. This problem can be solved.

In analyzing the buildup of Government-held cotton and the increase of the carryover, we see three things responsible for them:

First, in spite of the continual buildup of these stocks there has been no attractive avenue open for growers who do not really want to grow cotton on their allotments. There are actually millions of such acres in this country, including California. There has been no simple acreage diversion program whereby growers, had they wished to do so, could have left the cotton areas unplanted without loss of history for a small payment, and thereby saved the Government huge amounts of money and prevented the buildup of Government stocks. Quite the contrary. The program has told every grower in this Nation, "either you plant your allotment yourself or give it to some other grower who must plant it, or you lose it." And this was done, gentlemen, year after year, when Government stocks and carryover were rising.

Second, in the face of stiff competition from synthetic fibers, the cotton program has not given enough incentive to growers to produce

better qualities and better varieties of cotton to meet that competition with the synthetic fibers. It has not said to the growers, "If you can produce a better cotton which the textile mills will buy in preference to synthetics, you can produce more of it." Quite the contrary. The Federal loan program, which has its advantages, has had the great disadvantage of providing a safe Government market for virtually all cotton that could be grown on the allotted acreage, and which the textile mills did not want or would not buy, and acreage allotments have held them in straitjackets.

The CHAIRMAN. Well, isn't it a fact that in the last 5 or 6 years we changed from seven-eighths to average of the crop and then offered a premium for whatever was above, and a lower price for that below? Wasn't that a step in the right direction? I am sure you will say it was. But what other suggestions have you?

Mr. REYNOLDS. I am coming to those.

The CHAIRMAN. All right, proceed.

Mr. REYNOLDS. The fact of the matter, Senator, is this has not been enough. We all know——

The CHAIRMAN. It is entirely possible that, being from California, all you need to do is turn the water on and you can grow the kind of cotton you want. But that does not happen where they have to depend on rainfall. That is one thing I wish you would discuss in what you are about to tell us.

Mr. REYNOLDS. Thirdly, in spite of the competition of lower price synthetics, the cotton programs have not given incentives to the efficient producers to expand production and reduce costs. To a grower who was willing to grow more cotton for a smaller Government subsidy the program has not said "God bless you," except during the program of the A and B Act of 1959-60, and to some extent in the domestic allotment plan of 1964. The program has generally been to require every cottongrower to produce cotton at exactly the same cost to the taxpayer.

Fourth, our policy has said to the American cottongrower that he cannot compete in the foreign market on his own, through acreage restrictions. Through the export subsidy program and the acreage restriction program, actually the Commodity Credit Corporation has been the dominant factor in our exports.

And yet, Mr. Chairman, cotton can exist in the marketplace without massive amounts of Federal funds only if the best possible cotton is grown in increasing amounts, the best varieties of cotton, to meet the competition of other fibers and only if growers who can produce for less and less subsidy are allowed to grow more and more acres.

What the CCC is stuck with and what has caused our problem today is cotton which the textile mills, Senator Jordan and others, have turned down, and quality cotton is what we are talking about and what we need today.

Now, Mr. Chairman, we wish to suggest the board outlines of a program—I would like to repeat the last sentence because Senator Jordan just came in. What I just said, Senator, is what the CCC is stuck with now is cotton which the textile mills have turned down, and what we need is more and more quality cotton and the kind of cotton that you folks want to spin and can spin in competition with other fibers.

Senator JORDAN of North Carolina. I agree with that statement thoroughly.

Mr. REYNOLDS. Now, our program which we would present in broad outline would:

- (1) Reduce the cost of the cotton program to the taxpayers;
- (2) Maintain the one price system at home and abroad;
- (3) Reduce the mounting Government held stocks and the carry-over;
- (4) Give farmers the greatest freedom of choice and the least compulsion;
- (5) Encourage growers who can produce for a lower cost to the Government;
- (6) Encourage growers, not just in California but throughout the belt, but who wish to and can produce qualities and varieties of cotton which the textile mills want;
- (7) Enable our growers to compete on their own in the world market to the extent they wish to do so; and
- (8) To enable any grower who wishes to forego all the benefits of the program, forego all subsidies, all Government loans, all of the equalization fees to be able to produce for the world export market without Government restrictions. In other words, we are asking for our growers in the world market just the same privilege the Mexican grower has, and we say we want our growers to use our land and pay taxes in this country and to use our labor to grow cotton for the world market instead of letting the Mexicans do it in Mexico or the Guatemalan growers do it in Guatemala.

The CHAIRMAN. I understand most of the cotton grown in Mexico is grown by Americans, with American capital.

Mr. REYNOLDS. I just said so, because they cannot grow it in this country.

The CHAIRMAN. Why?

Mr. REYNOLDS. Acreage allotments is the principal reason.

The CHAIRMAN. What is the difference in the price that you obtain for cotton grown in California and for cotton grown in Mexico? Don't you sell it at the same rate?

Mr. MILLER. There is a little price differential.

The CHAIRMAN. I mean the same quality.

Mr. MILLER. It is the same type of cotton, but this differential, the Mexican cotton is hand-picked, and ours is machine-picked.

The CHAIRMAN. That accounts for the difference because of the cheap labor in Mexico.

Mr. MILLER. Yes.

Senator JORDAN of North Carolina. They do not plant any Alcala 440 seeds in Mexico, do they?

Mr. REYNOLDS. Some is being sent down.

Mr. MILLER. 442 is going into Mexicali.

Senator JORDAN of North Carolina. Is that irrigated?

Mr. MILLER. It is all irrigated.

Senator JORDAN of North Carolina. All irrigated?

Mr. MILLER. That is right.

Senator JORDAN of North Carolina. How much Alcala 440 would go into the loan this year?

Mr. REYNOLDS. You mean stay in it?

Senator JORDAN of North Carolina. Yes.

Mr. REYNOLDS. None, I mean 15,000, 20,000 bales. I think 25,000 bales stayed in last year out of a total production of 1,700,000 bales. That was just—this may be because it is not good cotton because it is too high priced.

Senator JORDAN of North Carolina. Well, the grade has got something to do with it, too, I think.

Mr. REYNOLDS. Yes.

Senator JORDAN of North Carolina. You know they had a late rain up there, and they chopped the grade on some of that cotton.

Mr. REYNOLDS. But one and a half percent of our cotton ordinarily is taken over by the Government as compared to an average of 50 percent nationwide, and in some States as high as 85 percent.

The CHAIRMAN. Proceed.

Mr. REYNOLDS. Thank you.

Senator JORDAN of North Carolina. That cotton is selling for about 4 or 5 cents a pound higher than some of the other cotton.

Mr. REYNOLDS. Yes, sir.

Senator JORDAN of North Carolina. Of the similar length staple.

Mr. REYNOLDS. Yes, sir.

Now, we suggest for consideration, therefore, a growers' choice domestic allotment program. We have not put this into technical language, and we know that we have not covered all the problems involved, but the broad points are as follows:

(1) Maintain the present 16-million-acre minimum national allotment;

(2) Assign each grower a domestic allotment as under the present law;

(3) Give him a nonrecourse loan of 29 cents a pound, and a direct payment of 5 cents a pound on the production from his domestic allotment. At the present time, we all know it is 29 and 4 cents. If a grower did not exceed his domestic allotment plantings, he would receive an additional payment of 2 cents, or a total of 7 cents; and

(4) The equalization fee, the difference between our world selling price and 29 cents a pound, to be paid either as it is now, under the present legislation to a buyer, or to the grower directly if he wished to take it in addition to the domestic allotment payment. The equalization fee, however, would be paid only on the bales tagged as production from domestic allotments, so it wouldn't be a 29-cent umbrella over everything—

The CHAIRMAN. That would be a direct payment?

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN. Price support would remain constant?

Mr. REYNOLDS. Yes, sir; but it would not hold an umbrella over the persons who wanted to produce for the free market.

The CHAIRMAN. We have that same method in the corn program.

Mr. REYNOLDS. I understand; yes, sir.

The CHAIRMAN. We have a support price of \$1.05 and a direct payment of 20 cents. That would be the same principle you are advocating here.

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN. Proceed.

Mr. REYNOLDS. The rest of the growers' allotment, roughly 35 per cent, would be free market allotment. On production from these acres the grower would receive no loan, no subsidy, and no equalization fee. And he could sell his cotton at the market price either at home or abroad.

(6) If the Secretary felt that more acres would need to be diverted than those left unplanted in the free market allotment to reduce Government stocks, cut costs and keep one price cotton, we suggest two diversion alternatives, Senator:

A. Any grower who wishes to leave unplanted, and keep his history, any portion or all of his domestic allotment in any year, would receive not less than 5 cents a pound on domestic allotment production thereby curtailed. Under the present system, say, a 15-acre grower, it costs the Government 10.10 cents a pound to price support him. So we just say if he did not want to plant any, let him get 5 cents a pound and save the Government 5 cents a pound.

This would be a great saving to the taxpayer who, had the grower produced the cotton under the present type of legislation, would have had to pay out over twice as much money. In other words, this gives the grower a choice if he wants to take it, of reducing his production, getting some cash to maintain his income, and saving the taxpayer a lot of money.

The CHAIRMAN. What could he plant on those 15 acres?

Mr. REYNOLDS. This is a real mare's nest.

The CHAIRMAN. You have to have some alternative. Suppose he wants to plant corn, suppose he wants to plant soybeans.

Mr. REYNOLDS. My suggestion would be, Senator, and I am not an expert on any of these things, my suggestion would be that this be a matter left up to be determined by the Secretary with guidelines that it would not upset the farm program and such matters as that.

The CHAIRMAN. And you want to put that on a voluntary basis?

Mr. REYNOLDS. Sir?

The CHAIRMAN. You would want to put that on a voluntary basis?

Mr. REYNOLDS. Taking the 5 cents a pound?

The CHAIRMAN. Yes.

Mr. REYNOLDS. Yes, those who wanted to take the 5 cents a pound and not plant, those who did not want to, go ahead and plant; yes, sir.

The CHAIRMAN. Then you would restrict, you would leave to the Secretary the determination of what the farmer could plant.

Mr. REYNOLDS. What uses; yes, sir. I mean, this is one way of doing it. We are not wedded to it. This is one way of doing it.

B. Any grower who felt that he could improve his economic position by going completely out of the cotton program and save the taxpayers' money, could surrender his allotment to the Federal Government for not less than half of what it would cost the taxpayers to price support him under the type of legislation we have now. At the present time it costs the Federal Government \$55 an acre to price support

one of those folks. Over a period of 5 years that is \$275. Now, we propose if one of those growers wants to—we do not force him—that he could surrender his cotton allotment to the Government and receive not less than \$100 an acre, depending on his per acre production. If he had 3 bales he would get more, of course.

The CHAIRMAN. What would he do with that land?

Mr. REYNOLDS. This is again for a period of 5 years we would leave this up to the determination of the Secretary.

The CHAIRMAN. After that? Go back to cotton.

Mr. REYNOLDS. Well, I follow that right here.

In other words, we propose that any grower who wishes to surrender his cotton allotments to the Government could receive not less than \$100 an acre, depending on his per acre production. Such acreage surrendered would be removed from future farm, county, State allotments and placed in a reserve pool for distribution to the States if, as, and when needed.

The CHAIRMAN. If it were distributed would those who obtained additional acreage be able to continue it and those who surrendered it would thereby lose it, is that the idea?

Mr. REYNOLDS. Let me get on it. I think I cover that later on, Senator.

Now, the acres taken out under these proposals would reduce the amount of cotton because, I feel, probably the ones who would sell out are the ones making the least amount of money and having the hardest time selling their cotton.

Another proposal, we propose that any grower who wished to surrender all his domestic allotment for any year and take no loan and no payment and no subsidy of any kind on any of his production, could plant and sell without restriction in the export market. In other words, we would be giving him the same rights which foreign growers now have, to grow cotton without restriction and without any benefits or help from the U.S. taxpayers. He would get no history or plantings above his allotment.

(8) We propose two national reserves of not less than 200,000 acres each; one to take care of hardship cases as now distributed among domestic allotment producers, and the other to provide additional acres to growers who wish to increase their free-market export production at no cost to the Government distributed as per the export market acres planted last year. Actually we are afraid that under this program that so many acres will not be planted in the free-market allotment that they will need some additional acres.

There are, of course, as the members of this committee can easily see, and we certainly know, the chairman has raised several of them, a number of unresolved questions which we hope could be solved.

However, we feel this general program has the following advantages:

1. It will give a grower a number of choices:

- A. He can produce his domestic allotment with a high subsidy and produce none on the free market. This will maintain his net income and cut down Government stocks.

B. He can produce his domestic allotment with a higher subsidy and in addition all or a portion of the free-market allotment, as best suits his individual situation for no subsidy and no cost for the Government. This means, of course, that his averaged or blended price per pound on production of his full allotment would be less than the price per pound on his domestic allotment, but growers who are growing the kind of cotton that your textile mills want would grow more, and the others would grow less.

This will provide elbowroom for the efficient producers across the belt and for those growers who are producing qualities and varieties which the textile mills want.

C. He can leave unplanted all or part of his domestic allotment as best suits his circumstances, for a cash payment for the unplanted acres without loss of history.

D. He can plant no cotton at all and still protect his history.

E. He can surrender to the Government for a payment which would save the taxpayers money, all or a portion of his cotton allotment.

F. He can release his allotment and keep his history as is now the case.

2. This program would reduce production, reduce the Government-held stocks, and reduce the carryover, because

(a) Some growers would choose not to plant their full free-market allotment, but they could still maintain their net through the higher price on the domestic allotment;

(b) Some would take the smaller payment for not planting, they would be forced to plant or give their allotment to somebody else, the fellow who owns the allotment would get some cash out of it; and

(c) Some would completely sell out their allotment to the Government for placing in the reserve pool.

3. The program would reduce the cost to the Government. Every acre which would receive the 5-cent payment and every acre sold out for \$100 would cut the present actual cost in half. Every million-bale reduction in production resulting from these and failure to plant free market allotment would mean a vast profit to the Commodity Credit Corporation and the taxpayers, because there would be no increase in stocks and because sale through the export sales of Government-held cotton stocks would bring cash to the Commodity Credit Corporation. Reduction in stocks would mean savings of millions in storage and handling charges.

4. By reducing the costs under a new program the benefits which the act of 1964 achieved in the domestic market through one-price cotton and the equalization fee would be continued.

We support the most vigorous export sales policy of the Commodity Credit Corporation stocks possible within the budgetary limitations set by the Congress. But, as noted before, we urge that this be supplemented by free competition from our own growers.

I would like to say this, gentlemen, actually we do not know in this country what cotton can be produced for. No large grower in this country in recent years with mechanized equipment, with the most scientific understanding, no large growers have ever been given the opportunity to see what they can do, not in your country, and not in our country.

The CHAIRMAN. You mean by giving him increased acreage and a free hand?

Mr. REYNOLDS. Without any Government help. Nobody knows what cotton can be produced for.

Somebody said here in one of the States nobody can grow cotton in that State for 22 cents a pound. I certainly agree that most of the cotton growers in California cannot grow cotton at 22 cents a pound, but I do know one thing, I know the Ford Foundation came down to my hometown of Fresno and gave an award to a cotton grower, I think he has 56 acres, they gave him an award for growing cotton, according to their investigation of his books, for 18 cents a pound. I know that. That is about all you can say about what you can grow cotton for.

The CHAIRMAN. Did he have his investment in that, his labor and everything?

Mr. REYNOLDS. The Ford Foundation made the investigation of his books, and this is what they came up with. I do not know how they did it, but they probably have got some pretty good accountants. At any rate——

The CHAIRMAN. Where can we get a copy of that?

Mr. REYNOLDS. I guess the Ford Foundation has a copy of it, sir.

The CHAIRMAN. We will try to get it.

Mr. REYNOLDS. But the point was——

The CHAIRMAN. Is that in Fresno?

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN. We will try to get that. I would like to see what the conclusion is.

Mr. REYNOLDS. Some of our folks, and there are not many of them, we call them the brave adventurous souls, would like to take a crack at competing with the Mexican grower and the Guatamalan grower and the Brazilian grower and the growers in Africa on a real good old U.S. mechanized way of operation of a cotton farm.

Now, if a few of them did it and pointed the way, then others could do it and this would bring down the cost of cotton programs to this Government.

Now, Mr. Chairman, finally——

The CHAIRMAN. Let me ask you this.

Mr. REYNOLDS. Yes.

The CHAIRMAN. Under one of your plans there of paying the grower 5 cents a pound not to plant——

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN (continuing). How many acres do you think would be——

Mr. REYNOLDS. I would estimate a million acres.

The CHAIRMAN. In California?

Mr. REYNOLDS. No, sir. I do not know how many in California, but I would estimate about a million acres throughout the belt.

The CHAIRMAN. But that would be primarily, I am sure, in the Southeast.

Mr. REYNOLDS. That might be. But the other part of the program where you allow a grower to sell out for \$100 an acre a minimum, and then if he is producing 2 bales an acre that is \$200 an acre, we would have a lot of growers in California sell out who will want to raise chickens or dairy or fruit or grapes.

The CHAIRMAN. What stops them from doing that if they think they can make a little more money from chickens?

Mr. REYNOLDS. Oh, no, because the cotton allotment has value, Senator. It is written into the value of the land, and they do not want to give it up unless they can get some money for it, but we say if they can give it up——

The CHAIRMAN. What do you think would happen if we were to give the opportunity to cottongrowers to suspend the production of cotton, say, for 5 years without losing their history, how many do you think would not plant cotton?

Mr. REYNOLDS. I think you would have a lot that would not plant cotton. I do not think you would have a lot in California.

The CHAIRMAN. I do not suppose the California landowner can produce a crop today that is more beneficial to him than cotton unless it is fruit. It takes a long time.

Mr. REYNOLDS. Well, by and large, sir, you are right. There may be individual cases where a grower has got 100 acres of plums and 10 acres of cotton. The 10 acres of cotton have value, but if he can sell it this would be good.

Finally, we want to say, Mr. Chairman and gentlemen, that we look upon the 10 million bales which the CCC will soon have as payment-in-kind money in the bank to be used in solving the cotton problem. When that money is gone there may be no more. We therefore feel that it should be spent as wisely as possible and that it should be spent to solve problems rather than just postponing their solution. We are afraid that when the money is all gone a most difficult situation will exist if those problems aren't on the way to solution.

Thank you, sir.

The CHAIRMAN. All right.

Now, you mentioned a while ago about the quality of cotton that CCC had on hand. When you spoke of quality, did you mean the length of the staple or what, just what was your definition of the cotton that you say that the mills do not want?

Mr. REYNOLDS. Yes, sir; I get your question. Since I am not a millman, I do not know why they did not want them. Senator Jordan is here and he knows why they do not buy it.

The CHAIRMAN. Well, we had here figures that we had for 1963; here is what we had on hand, that is by the CCC from 1963 and early crops as of March 12, 1965. We had 7,091,661 bales. Of that amount of cotton, we had 4,701,283 bales whose staple was 1 inch and more.

Senator RUSSELL of South Carolina. One inch and what?

The CHAIRMAN. One inch and more.

Mr. REYNOLDS. I think probably the answer——

The CHAIRMAN. The mills certainly do not turn their noses down on cotton of that staple.

Mr. REYNOLDS. Sir, I do not know. All I know is that the mills have not bought it, and that is the reason the Government has got it. Now there must be some reason why they have not bought it.

Senator JORDAN of North Carolina. Mr. Chairman, would you read those off again there, the quantities they have got of the quality they say they have there?

The CHAIRMAN. Of 1 inch or more, 1 inch up, you have $1\frac{1}{32}$, $1\frac{1}{16}$, $1\frac{3}{32}$, $1\frac{1}{8}$, $1\frac{5}{32}$, $1\frac{3}{16}$, and $1\frac{7}{32}$.

To continue, the cotton I have just mentioned, the length of the staple, out of 7,019,661 bales, you had 4,701,283 bales which are supposedly good cotton.

Senator JORDAN of North Carolina. Of an inch or better?

The CHAIRMAN. Yes, out of 7 million bales.

Senator RUSSELL of South Carolina. How much of it was there that did not have any strength that we heard about from the witness from Lubbock.

The CHAIRMAN. None. That is of the shorter staple.

Senator RUSSELL of South Carolina. No, he said that some of it was an inch or better. He said it did not have any strength. What was that——

Senator JORDAN of North Carolina. Immature fiber.

Senator RUSSELL of South Carolina. He said 400,000 bales of it had gone into loan last year and for 3 years.

The CHAIRMAN. It does not give that at all here. It is classified as white—the regular classification of cotton, and it might be of interest to place this table in the record at this point. It shows that the number of bales that we have of $1\frac{1}{32}$ inch are 2,132,840 out of the 4,701,283 bales. In other words, half of it happens to be $1\frac{1}{32}$ cotton.

(The table referred to follows:)

Grade and staple of cataloged stocks of CCC upland cotton, 1963 and earlier crops, as of Mar. 12, 1965

[Bales]

Grade	13/16 inch	7/8 inch	29/32 inch	15/16 inch	31/32 inch	1 inch	1 1/32 inch	1 1/16 inch	1 3/32 inch	1 1/8 inch	1 5/32 inch	1 3/16 inch	1 7/32 inch	1 1/4 inch and longer	All staples
White:															
Good Middling	1	8	57	207	262	351	1,809	3,133	306	72	2	41	4	5	6,208
Strict Middling	57	1,075	8,408	50,804	29,650	29,338	202,719	427,868	2,759	345	43	6	4	5	753,116
Middling plus		8	79	262	219	897	21,252	47,365	603	88	22	108	11		70,801
Middling	291	6,517	57,201	165,814	83,043	110,865	898,957	1,208,868	4,754	1,014	131	25	1	11	2,537,585
Strict Low Middling plus	4	267	3,151	8,231	3,217	6,605	43,630	26,913	1,300	1,170	53	61	6	3	93,570
Strict Low Middling	128	6,691	145,121	393,956	55,168	88,299	512,215	253,770	7,840	1,497	218	25	5	16	1,464,986
Low Middling plus	8	621	11,450	36,189	6,982	10,414	38,650	9,784	1,461	413	81	110	35	13	116,096
Low Middling	23	798	20,568	62,183	18,030	62,016	179,554	22,233	2,008	982	211	4	3	48	368,799
Strict Good Ordinary plus		47	823	2,801	790	1,662	3,512	1,363	146	39	19	4	3	5	11,188
Strict Good Ordinary		201	2,373	5,441	5,837	22,880	30,149	10,466	960	145	1	4	3	4	78,482
Good Ordinary plus		6	64	1,157	112	499	660	278	19	4	3	4	6		1,800
Good Ordinary	1	60	496	1,777	2,420	5,679	6,996	3,121	202	43	3	4	6		20,808
Light spotted:															
Good Middling		1	22	80	68	55	102	88	30	4	1				451
Strict Middling	527	6,264	27,256	30,250	6,292	7,790	19,346	8,706	670	126	23	2	4		107,256
Middling	1,426	24,673	217,844	453,596	36,826	22,747	63,355	34,150	1,989	383	62	38	1	2	857,092
Strict Low Middling	499	7,204	110,454	156,196	29,637	32,390	53,271	10,536	1,461	374	80	35	9	9	402,155
Low Middling	101	933	6,183	12,103	9,713	17,325	24,168	6,356	751	273	66	40	17	19	78,048

Senator JORDAN of North Carolina. Would you recommend that the Government stop putting cotton under loan that they do not have any sale for?

Mr. REYNOLDS. Senator, this is a policy which this committee and the Congress have to determine. But if there is cotton you won't buy, are you going to say the Government has got to buy it when I do not want to spin it? I mean, this is what we have had in the cotton program for all these years.

You did not have to sell it to your mill or any of your mills in South Carolina. All you have to do is grow it and put it in the loan, and the result has been that we have not encouraged the growers to grow quality cotton.

Fifteen years ago or twenty years ago, the only place we could sell our cotton in California, as Lou Barringer knows, who was out there buying, was to Japan. Our mills would not take it, so over a period of 10 or 15 years we have developed and bred a quality of cotton which has the strength, I think this is the secret of what we are talking about, it has the strength and the spinability which your high-speed mills can use without snapping and causing delays and everything, and this is the kind of cotton that we feel that if cotton is going to stay a commodity and not just a Government purchase program, this kind of cotton, the quality cotton, is going to have to be increased in volume, and we are going to have to make it possible for the growers who are not growing that kind of cotton to sell out if they want to. No force, just sell out.

Senator JORDAN of North Carolina. Mr. Reynolds, in your opinion aren't we losing part of our world market through the fact we do not have good cotton to ship?

Mr. REYNOLDS. Senator, the price of California cotton went up so much last year because there was such a great demand for it that we lost our export market, we lost our export market. We could have sold maybe 200,000 or a quarter of a million bales abroad if we had it, but the price was so high they would not buy it. What did they buy? They bought synthetics, that is what they did.

Senator JORDAN of North Carolina. It is 41 cents as against 36.

The CHAIRMAN. You mean last year? I thought you sold at world prices last year.

Mr. REYNOLDS. No, sir. We had a small portion of the export program, Senator, which was, which amounted to, finally it got down to a dribble, 21,000 acres of 19,000 acres grown in California for the export market.

The CHAIRMAN. Why couldn't you sell it?

Mr. REYNOLDS. We did.

Senator JORDAN of North Carolina. Sold it domestically?

Mr. REYNOLDS. No. The export acres program we sold abroad, but we could have sold a quarter of a million more bales and brought in millions more dollars for our balance of payments.

The CHAIRMAN. But you did not have it.

Mr. REYNOLDS. No, sir. Your acreage allotments wouldn't let us produce it.

The CHAIRMAN. I see.

Mr. REYNOLDS. And the rest of the country was growing cotton which they did not want.

The CHAIRMAN. That is why under your program, I guess, all of the cotton production which shifted to the West.

Mr. REYNOLDS. No, sir.

The CHAIRMAN. I won't argue that point.

Mr. REYNOLDS. Can I say one more thing, Mr. Chairman, about the cost? You have asked about costs of this program, and we have not had the department to put all their experts on it, but we think it would be interesting to go over, and I would like to submit to the committee some better figures, but these are the figures along the lines you are talking about. One, if we assume our domestic consumption is 10 million bales, and if we assume there would be 2 million bales diverted from it, that would leave 8 million bales left on which the equalization fee would be paid, and if we assume that \$60 a bale, that is \$480 million. The storage charges are roughly \$58 million.

Now, the diversion costs per year under our program, we estimate would be \$50 million; 1 million acres at \$25 an acre, and a million acres selling out for \$100 an acre or \$25 a year. This adds up the actual cost to \$588 million.

If we assume that 3 million bales from CCC stocks are sold at \$110 per bale export that makes \$330 million which, subtracted from \$588 million leaves \$250 million the net cost, and if you add the Public Law 480 and barter on that for \$200 million, which may be high, this makes the net cost of our program \$458 million, and we have made some real progress toward solving the problem.

The CHAIRMAN. That is a little higher than the program last year.

Senator JORDAN of North Carolina. I will tell you what I wanted Mr. Barringer to put in the record, because he probably buys more cotton than anyone else in the country. He buys all of Cannon's requirements, and I would like to put in the record why they do not buy this cotton in the loan, why they do not want it.

The CHAIRMAN. I would be interested in finding that out myself.

STATEMENT OF L. T. BARRINGER, VICE PRESIDENT, CANNON MILLS CO., MEMPHIS, TENN.

Mr. BARRINGER. They are just producing so many mediocre qualities now, and all the new high-speed spinning, in the mills, and we find the producers are growing poorer qualities cotton than they should, they need to grow cotton which has a good deal more strength in it, otherwise they are going to lose more and more of their markets every year; we have just too much of that mediocre cotton.

The CHAIRMAN. Could you prepare specifications for us as to what the cotton mills like?

Mr. BARRINGER. We can sure do that.

The CHAIRMAN. It might be of assistance in helping us to draft legislation.

(The information is as follows:)

THE MANUFACTURING QUALITY OF COTTON

Cotton is grown for the purpose of being spun, woven, finished and made into various consumer items varying from high fashion garments to seldom seen industrial fabrics. Cotton is one of the Nation's most valuable agricultural commodities and its value is related directly to its ability to measure up to very exacting manufacturing requirements.

Unfortunately, not all of the cotton grown in the United States is desirable from this all-important standpoint. Some of the annual cotton crop falls completely short and actually is of little value as an item to be manufactured in textile mills. At the same time, millions of bales are suitable for mill use. The value of these bales to the manufacturer depends primarily upon several factors that may not be obvious at first. Foremost among these are:

- 1. The yarn or fabric to be made; and
- 2. The machinery upon which the cotton will be processed.

At one time, the term spinnability was used to describe the performance of cotton in a textile mill. However, this term was not all-inclusive and it was interpreted to mean that cotton's performance on the spinning frame was the ultimate criterion of quality.

Today, it is realized that the quality of cotton is significant all the way through the mill including spinning, weaving, and finishing. Therefore, instead of "spinnability" the more descriptive term "manufacturing quality" has been commonly used in recent years.

Obviously, different textile mills have varying requirements so far as cotton's quality is concerned; however, cotton is being produced in volume in the United States today that is of little or no value for textile mill consumption. In other words, it does not have sufficient manufacturing quality to be used in a mill.

Despite their varying requirements, all mills have two basic desires so far as cotton is concerned and these are: (1) That it is of such quality that it can be manufactured economically in the mill; and (2) That it have all the natural properties vital to the making of a competitive quality product. These latter qualities include fineness, maturity, tensile strength, length uniformity, spirality, pliability and cohesiveness of the fibers. A bale's value is tied directly to these basic requirements and if it does not meet them, it deteriorates in proportion.

Through the years the cotton trade has developed many devices for measuring these properties and much research has been conducted by the U.S. Department of Agriculture plus other public and private organizations to perfect them. Further, tests on cotton conducted under rigid controls have proven the all-important fact that manufacturing quality is the basic determining factor of the true value of a given bale of cotton. The value can be determined in advance and cotton that does not measure up is in the same position as any other undesirable agricultural commodity or industrial product.

There are numbers of factors that lower the manufacturing quality of cotton but primary among these are inferior varieties, poor growing conditions, improper harvesting, ginning, and handling.

It should be remembered that the consumer of cotton products does not purchase cotton in the bale. His money is spent for products manufactured from the bales that possess certain basic qualities and the bales that do not meet these manufacturing requirements obviously are of little economic value.

FINENESS OF UPLAND COTTON STATED IN TERMS OF MICRONAIRE SPECIFICATIONS

A micronaire reading of 3.50 to 4.25 gives very good spinning results. A reading of 3.00 to 3.40 is on the bare side. Readings of 2.90 and below are very unsatisfactory for quality work. Readings of 5.00 and above are coarse in fiber size and some mills object, but if the percentage of the mixture in a shipment is not too great, most mills will not complain too severely.

Comparison of fiber strength of major cotton producing areas for years 1959-64 expressed in thousands of pounds per square inch (0 gage)¹

	1959	1960	1961	1962	1963	1964
Southeast.....	76	76	76	81	79	74
Central belt.....	78	80	80	83	81	82
Southwest.....	79	78	76	80	81	81
West.....	90	90	87	89	86	87
United States.....	80	81	80	83	82	81

Some districts in the above areas have permitted their cotton to deteriorate or have made little effort to improve it. At the same time, other districts have made extensive efforts and progress—particularly in the central belt and Cali-

fornia—in the field of cotton quality. Consequently, the averages shown above are so inclusive that the major strides made in certain districts are not apparent.

1. North Carolina Department of Agriculture fiber strength ratings:

Above 90: Very high.

84 to 90: High.

77 to 83: Average (base).

70 to 76: Low.

Below 70: Very low.

Mr. BARRINGER. We need to have the producers to grow better varieties of cotton and take better care of the cotton that they grow. We pay tremendous premiums to the cotton growers in California. They produce high quality cotton.

The CHAIRMAN. Of course, cotton grown in California is grown under irrigation, and we depend on rain, and that is really the reason for it, in my opinion.

(At this point a short recess was taken.)

The CHAIRMAN. Mr. Barringer, in this table that I have inserted in the record there were 443,656 bales of 1 inch cotton, and 2,132,840 of one and one-thirty-second inch cotton, and 2,088,177 of one and one-sixteenth inch.

Would you look over the schedule of the columns I gave you and indicate to the committee why, in your opinion, it is that so much of that cotton is still on hand. It seems to have the staple length. What else is there that would deter you from buying it as a purchaser for, I understand, Cannon Mills?

Mr. BARRINGER. Senator, we use from 400,000 to 500,000 bales of cotton which runs in staple from, primarily from, an inch and one-thirty-second to an inch and three-thirty-second. It will average a shy inch and one-sixteenth over the last 20 years; prior to that we used a type of cotton in those mills that was an average of approximately $31/32$ of an inch. As labor costs advanced we began to use a little bit better staple quality to offset some of the production costs. When we moved from $31/32$ to a shy one and one-sixteenth, that made a substantial cost between the two cottons.

Now, in this inch and one-sixteenth cotton we are using a quality which is of top character in terms of cotton as against mediocre.

The CHAIRMAN. What do you mean by top character? What does that envision, staple strength?

Mr. BARRINGER. It has a good breaking strength. It has a micronaire that is normal. It has to be cotton not wasty or weak.

The CHAIRMAN. Can you run down that list, the columns I have just mentioned there, and indicate if you can what quality of cotton would not meet your specifications there. What is the trouble, what is the matter with it?

Mr. BARRINGER. Senator, we have looked over the Government catalog and you have Middling $11/16$, 1,208,000 bales of cotton. When it comes to considering that cotton of Middling inch and one-sixteenth for Cannon Mills, judging from experience and having bought a considerable amount of cotton by these descriptions in the last 3 or 4 years, I doubt if there would be 200,000 bales of this Middling inch and one-sixteenth cotton which we would want to buy because it is on the low side of what we consider normal in character and staple length. This cotton has come through the loan process. A lot of the cotton was selected over by the buyers in the country.

The CHAIRMAN. You mean before it went to the loan?

Mr. BARRINGER. That was after it went to the loan. It was placed in the loan by the producer, and then it was foreclosed on by the Commodity Credit Corporation, but much of this cotton was selected over before the remainder was finally foreclosed.

The CHAIRMAN. And purchased from the owner?

Mr. BARRINGER. That is right. Now a lot of this cotton here, a middle inch and one-sixteenth is, I am sure, is located in areas of the southeast—I am talking about North and South Carolina, Georgia—we look on much of the inch and one-sixteenth cotton there as weak from a spinning standpoint.

The CHAIRMAN. You mean its staple?

Mr. BARRINGER. That is right.

The CHAIRMAN. What causes that, do you know?

Mr. BARRINGER. A lot of it is in the variety of the seed. You can grow the stronger fibered cottons if you are willing to go in and plant that seed, that variety. California switched over from a poorer quality of cotton to 442 variety. They had a more normal weather to do it with than most areas but the Mississippi Valley has improved the quality of its breaking strength, I would say 5,000 or 6,000 pounds per square inch in the last 6 or 7 years. They are continually working to build up the spinning quality of their cotton.

The CHAIRMAN. Why hasn't Georgia and North Carolina and South Carolina done the same?

Mr. BARRINGER. Senator, a lot of people there are growing cotton for the loan. I think if you look at North and South Carolina, Georgia too, you would be amazed at what a small percent of the cotton is actually used locally. It is accumulating in the warehouses with slow turnover, I think more so, much more so, than in the Mississippi Valley. We know we are accumulating cotton all over, but I do not think that the cotton stacking up proportionately is as high in the Mississippi Valley as it is in North and South Carolina.

Now, in the Mississippi Valley, we have some cotton qualities that are weak in fibers, and a lot of that cotton continues to stay on in the loan, but they are able to work some of that cotton a little bit better export than the people in the Carolinas because they have the loan rate which is lower, illustrating Memphis territory as against the Carolinas.

But yet the big end of Mississippi Valley, I believe, 80 or 85 percent, moves to domestic mills. So these people are stacking up less cotton proportionately than some other parts of the country.

You take in some parts of Texas, I doubt if over 35 percent of their cotton is going into export or may 40 when that should be mainly export territory. The Mississippi Valley is more or less a domestic territory. Yet I would say they are doing 15 to 20 percent export as against 80 to 85 percent to the domestic mills, and now if these poorer qualities were priced more in line with the spinning values they would move more freely, and the same thing applies to the foreign destinations.

It is going to be a big problem, Senator, as to how to work off a lot of this Commodity Credit stock. I can see where they might sell 3 to 4 million bales under more or less normal conditions. But it has about 3 or 4 million bales of cotton that requires close examination

into the situation and figure out some way to start that cotton to move or it is going to stay there for a long, long time.

I do not know just exactly what approach might be used, but I think the Secretary of Agriculture should begin to make a serious investigation of his stock of cotton.

Now, if you had merchandise which was accumulating and you were not moving from shelves in your store, you would begin to check pretty close to see just what is causing the trouble. Some new approach through a serious investigation of how to manage the turnover better of this cotton stock should be made because you do not want the same bales to stay in inventory too long because, if they do, we all know that cotton colors up, and each year that takes on a coloring it reduces the value of the cotton.

The CHAIRMAN. Well, tell me, outside of the suggestion of yours to produce cotton from better seed, what effect has mechanization had on the quality of cotton, particularly the picking of the cotton?

Mr. BARRINGER. Senator, it has had a material effect on it. There have been some of the best educational programs put into effect with the ginner and the farmers on how to handle their mechanized cotton of any agricultural programs that I know of in any way.

Everyone from the cotton buyer on to the producer realizes that if we are going to have marketable cotton under an extreme labor shortage, cotton must turn to mechanization, and everyone has tried to cooperate to obtain as good a product as they could under the method of mechanization.

The CHAIRMAN. What bad effect has it had as to quality? In other words, in what area of mechanization do you think——

Mr. BARRINGER. You have had a little more trash.

The CHAIRMAN. In the picking of it.

Mr. BARRINGER. Right. It is in the picking of the cotton, that is right.

The CHAIRMAN. Isn't there also a tendency of maybe picking cotton that is ——

Mr. BARRINGER. Wet.

The CHAIRMAN. Wet, immature?

Mr. BARRINGER. Right.

The CHAIRMAN. Where the boll has just opened?

Mr. BARRINGER. Right.

The CHAIRMAN. Which otherwise would not be picked by hand?

Mr. BARRINGER. Right. But then in a case as where you have so much moisture, the ginner then has to be very careful not to overheat in drying it out, because that feature has proven to be very serious in damaging cotton from a spinning standpoint. The dyeing ability of your yarns and cloth, according to the way that you have heated the cotton in the ginning.

I will tell you, you have really raised a good point there, and the reason it is so pertinent is that we are going to have to live with mechanization. I will just say that I have never seen an industry try to cooperate in every branch as they have in cotton, trying to not let cotton die.

It had to switch its method of harvesting, it still has problems and work must be carried on. But it is something that I am sure is going

to have the support of everyone. The Government has itself put untold effort in this phase of the cotton production, but I do not think that we can say that cotton harvested, as such, is going to be a detriment to our selling cotton if we will continue with developments, and that comes in part by research money that has been aided by the Congress.

The CHAIRMAN. They get quite a bit of research.

Mr. BARRINGER. I know they do, and it is appreciated. That is what I want to let you know.

The CHAIRMAN. Right.

Mr. BARRINGER. But everyone connected with the cotton growing industry and the trade, is absolutely alert to machine harvest, this machine harvest cotton has given some problems in the foreign countries competitively, because the mills complain a little if the cotton is poorly ginned or poorly picked, they, like anyone else, if there is a little something to complain about they are going to complain. There is a little bit more to complain about, generally speaking, in machine-picked cotton than there is in handpicked cotton.

We will pay Mr. Reynolds here a premium for Strict Middling handpicked cotton over Strict Middling machine-picked cotton, and yet under Government standards it is all the same thing.

The CHAIRMAN. Will he get the same rate of loan?

Mr. BARRINGER. I beg your pardon?

The CHAIRMAN. Will he get the same rate of loan?

Mr. BARRINGER. He will get the same rate of loan.

The CHAIRMAN. What premium?

Mr. BARRINGER. I would say at least a 50-point premium for hand-picked.

The CHAIRMAN. Handpicked.

Mr. BARRINGER. Yes, and maybe 75 over machine-harvested cotton, and yet the Government loan is the same.

The CHAIRMAN. Makes no difference.

Mr. BARRINGER. Makes absolutely no difference.

The CHAIRMAN. No distinction.

Mr. BARRINGER. So you can see that with all the things that came into play, we switched from a handpicked crop of cotton here a few years back into a machine-harvest deal, and it is really amazing, Senator, that we have gotten through and kept selling our cotton as well as we have.

But now I will say this. The people who go in and buy cotton will continue to try to select the best cotton that is out there on the market, and that is one of the reasons so much cotton gets into the loan not quite up to par, but that is the way cotton is sold. I say you do not buy the best cotton every time because price enters into it, so those things have to be considered. But we certainly need for the Secretary to take a good look at what to do with this big stock of cotton from a quality standpoint.

Now, it is not all bad, but there is a lot of it that is just not the kind of cotton that is going to be easy to move from a spinning quality standpoint and in the manner now priced.

The CHAIRMAN. Well, thank you, gentlemen, very much.

(Additional statement on cotton filed for the record is as follows:)

STATEMENT OF HAROLD C. HIX, PRESIDENT, AMERICAN COTTON COMPRESS & WAREHOUSE ASSOCIATION, HOUSTON, TEX.

My name is Harold C. Hix. I am president of the American Cotton Compress & Warehouse Association, Houston, Tex.

Our association is comprised of owners and operators of cotton concentration warehouses located at both interior and port points. We are fully aware of the many difficulties encountered by this committee in attempting to draft and enact sound cotton legislation, and we are grateful for this opportunity to participate in this hearing.

The cotton situation which this committee is now studying is a complex one and its solution is vital to our entire economy. The existing program has proven to be considerably less than successful, as evidenced by the large accumulation of surplus stocks and the loss of exports which, according to Secretary Freeman, may be nonexistent by 1970.

The small farmer must have some protection but his problem is both economic and social. The social part of this problem should be handled by the proper agency since it is not a function of the USDA.

We believe that President Johnson very ably assessed the cotton situation in his agricultural message of January 4, 1965, when he stated: "We need to change much of our thinking on farm policy. Just as we do in other segments of our economy, we need to separate the social problems of rural America from the economic problems of commercial agriculture."

The rigid controls inherent in the loan type price-support program have almost eliminated the free marketing of cotton. Consequently, U.S. cotton has lost much of its domestic market to synthetic fibers and our entire export market is dangerously threatened by lower price foreign cotton.

In his testimony before this committee, Secretary Freeman dramatically emphasized the critical situation facing cotton in the international market and he also recommended a solution—

"It becomes especially important in the current crisis, for the old axiom 'export or die' is particularly true in the case of cotton. Historically we have exported one bale in three. With rising yields and growing competition, increasing attention must be given to the foreign market. After 4 years of experience, I am convinced the best way—as a practical matter—to maximize American cotton exports is to move cotton through the private trade freely at world prices."

We believe that the ultimate solution to the problem will be the elimination of price support loans for cotton since a loan at any level will tend to influence world prices. We further believe that a loan of 18 cents or higher would in effect establish world prices.

The large stocks of Government-owned cotton are also a very real influence on the world price. This must be eliminated. We suggest a policy of selling a fixed number of bales per month to the highest bidder—for example 100,000 or 200,000). Such a program would make known the supplies of cotton available to the market for long periods of time and would help stabilize market prices.

In conclusion we recommend that the production and marketing of U.S. cotton be returned to its historic place within the free enterprise system.

The CHAIRMAN. Without objection we will place in the record at the proper place a letter addressed to me from Wayne H. Olsen, chairman, Legislative Committee, International Association of Game, Fish, and Conservation Commissioners, and Commissioner of Conservation of the State of Minnesota.

(The letter referred to appears on p. 221.)

The CHAIRMAN. All right, Mr. and Mrs. Simmermon.

STATEMENT OF MR. AND MRS. EMMETT SIMMERMON, SOUTH SOLON,
OHIO

Mr. SIMMERMON. I want to thank you for appearing before the committee, and we want to commend you for the time and effort put forth in these hearings. I do not see how you can stand it.

The CHAIRMAN. It is pretty difficult to sit here all day, but I like it. I want to get all the information I can so we will be better able to present the issues to the Senate and the Congresses. Do you have a prepared statement? How does it differ from the last statement you presented here?

GENERAL

Mr. SIMMERMON. We have added lots to it. Since we gave it to the House over there, we brought in about food, the cost of food, and the food price to give the farmer a fair price, and it won't hurt the consumer as far as the buying power of the food, we just have a whole lot more.

Mrs. SIMMERMON. To expedite this, maybe I will omit the poetry, although it has its points, and I will read as far as I can so as not to tire you too much.

The purpose of this farm statement is to give the farmers a fair income equable with the nonfarmers and with less governmental cost.

We use corn as the basis for study and formulating agricultural programs. Corn is produced in every State of the Union except Alaska, the total bushels are approximately the same as the total bushels of wheat, oats, barley, rye, and soybeans each year and around 90 percent of the U.S. utilization of corn is fed.

The statement to remove all but 1 million farmers is perplexing to both the rural and urban people.

The soil's structure, contour, location, and size must be considered for the crop production.

The 1959 Census of Agriculture, table No. 4—corn for all purposes—farms reporting by acres harvested, using medium acres. Farms 10 acres and less harvested were 92 percent or 2,037,085 more acres than the farms harvesting 400 and more acres. Farms harvesting 99 acres and less harvested 43 percent or 15,053,391 more acres than the farms harvesting 100 and more acres. Farms with 500 acres and under represented around 42 percent cropland. Farms with 1,000 acres and over represented around 11 percent cropland.

The majority of the small farmers with a tractor, machinery, some livestock, automobile, and radio or television are mostly subsistent, with very few economic problems or welfare cases. Can we mold the small hill and valley farms into one agricultural unit?

(The two tabulations referred to follow :)

The 1959 census, table No. 4, corn for all purposes, reporting by acres harvested (using medium acres)

Acres	Average	Corn farms	Estimated total acres	Percent
Under 5.....	21½	325, 735	814, 337	0.9
5 to 10.....	71½	456, 049	3, 420, 368	4.0
11 to 15.....	121½	219, 584	2, 744, 800	3.3
16 to 19.....	171½	89, 874	1, 572, 795	1.8
20 to 24.....	221½	140, 319	3, 157, 177	3.7
25 to 49.....	371½	371, 682	13, 938, 075	15.3
50 to 74.....	621½	213, 733	13, 358, 312	15.9
75 to 99.....	871½	120, 914	10, 579, 975	12.5
100 to 149.....	125	125, 646	15, 705, 750	18.7
150 to 199.....	175	44, 065	7, 711, 375	9.2
200 to 299.....	250	26, 783	6, 695, 750	7.8
300 to 399.....	350	6, 171	2, 159, 850	2.6
400 to 499.....	450	1, 987	894, 150	1.1
500 or more.....	750	1, 737	1, 302, 750	1.7

Farms 10 acres and less harvested were 92 percent or 2,037,805 more acres than the farms harvesting 400 and more acres.

Farms harvesting 99 acres and less harvested 43 percent or 15,053,391 more acres than the farms harvesting 100 and more acres.

Farms with 500 acres and under represented around 42 percent cropland.

Farms with 1,000 acres and over represented around 11 percent cropland.

Do we need the small farmer? Commercial farms: Size of farms in value of sales

	1,000 acres	Percent	Cropland harvested	Percent
\$40,000 or more.....	251, 748	25. 8	44, 375	15
Under \$40,000.....	725, 528	74. 2	251, 103	85
	Cattle and calves	Percent	Milk cows	Percent
\$40,000 or more.....	19, 460, 332	22. 8	1, 452, 065	9. 4
Under \$40,000.....	66, 071, 492	77. 2	13, 934, 656	90. 6
	Hogs and pigs	Percent	Sheep and lambs	Percent
\$40,000 or more.....	5, 731, 948	9	9, 902, 620	31. 7
Under \$40,000.....	58, 046, 513	91	21, 333, 262	68. 3
	Tractors	Percent	Motor trucks	Percent
\$40,000 or more.....	394, 632	10	276, 798	12. 4
Under \$40,000.....	3, 552, 288	90	1, 957, 414	87. 6

The farms with sales of \$40,000 or more, their average percent for the above 8 farm items was 17 percent.

The farms with sales under \$40,000, their average percent for the 8 above items was 83 percent.

When and what would we eat without the small farmers' production?

Mr. SIMMERMON. We made a chart here of one who harvests under 5 acres, 5 to 10, and then we got over here to percent and——

The CHAIRMAN. You mean production?

Mr. SIMMERMON. Well, no, these are the acres harvested, corn acres harvested for all purposes, instead of production. That gives the total acreage, and where you took the middle point here, 99 acres and less, they were the ones that harvested 43 percent more acres than the one harvesting 100 acres and more.

When we came down to Washington, all the papers said you only need 1 million farmers, you see, and later they said that the ones with sales of \$40,000 is all we need, and we take 8 items of those, and those were acres, cropland harvested, cattle and calves, milk cows, hogs and pigs, sheep and lambs, tractors and motor trucks, and over 80 items, the ones who had sales of \$40,000 and over, they produced 17 percent; and then——

The CHAIRMAN. Of the production.

Mr. SIMMERMON. Of the production, and the ones with \$40,000 and underproduced 83 percent. So after we sent that to the White House and the Department of Agriculture you did not hear any more about 1 million farmers were all we needed, so that stopped that. So she can go ahead.

The CHAIRMAN. Proceed.

Mr. SIMMERMON. You can make that table out.

Mrs. SIMMERMON. Around the middle of the Eisenhower administration his economist stated they were moving the small farmer with lower farm prices giving the larger farmer a fair income later from less farmers. We disagreed, telling him we had attended many farm sales in Ohio, Indiana, and Illinois and the 25- to 40-year-old farmers with their modern machinery were selling out, and the census books would give the answer. Two days later a large trailer load of census books were burned.

The farmer's average age now is over 55 years and around 100,000 of the 25- to 40-year-olds are quitting the farm each year.

The major farm problems are not too many farmers but they are: (1) the farmers working around 60 hours a week for survival are producing more than our needs and (2) the farmers are not receiving a fair price for their labor and capital investment.

For correction (1) each farmer would divert from production the USDA-estimated percent of acres that creates the surplus without a Government payment, and (2) each farmer would receive a support price for the USDA-estimated needed production, representing their labor and capital that would be on an equitable basis with the non-farmers.

The USDA increasing and decreasing the estimated percent of the needed crop acres each year would give the U.S. population the necessary food supply and no burdensome surplus problem with normal weather.

We came to Washington, D.C., in January and because so many of the efficient young farmers were selling out, with the news, farm organizations and the USDA stating the average net farm income was around \$3,600, we knew something was wrong and we decided to find the trouble.

We know now that realized or nonmoney farm income figures have been before the Government officials and the public eyes so long that now they see them as real cash farm income figures.

We know of no mathematical rule stating how realized or nonrealized income can be added to or taken from the farmer's net cash farm income and change the farmers' net cash income. Realized income is only printed figures with no monetary value.

A farm family may use labor, seeds, fertilizers, and expenses to produce some flowers and vegetables from which they receive home consumed enjoyment. A city family may use labor, seeds, fertilizers, and expenses to produce a nice green lawn perhaps with a swing and a swimming pool from which they receive home consumed enjoyment. Both families are U.S. citizens and both expended labor and capital but the USDA classifies the farm home consumed enjoyment as income and the urban home consumed enjoyment as expense.

So \$2.1 billion of realized or nonmoney income in print was added to the 1963 farmers' net cash income for their dwelling regardless of whether the farmer owned, rented, or had built a new home.

The farm dwelling is not a farm income production tool. It does not plow, harvest, produce crops, livestock, or dairy products. It is just a building and if rented could produce income. The rental income from a farm or nonfarm dwelling is not a legitimate part of farm income. If a chauffeur wanted \$2,000 but you drive your own car, you realize \$2,000. If a maid wanted \$2,000 but your wife did the

work she realizes \$2,000. Would not this \$4,000 increase in income in print look good? Could you ask your boss for a raise?

From the Economic Report of the President, January 1965—Net income per farm, current prices, dollars

1960	-----	\$3, 044
1961	-----	3, 389
1962	-----	3, 581
1963	-----	3, 643
1964	-----	3, 656

These prices would not look so bad to the general public and who would question the Economic Report of the President of the United States? These farm income prices are similar to the above realized prices and the general public would see them as the farmer's cash income.

Since 1959 the USDA omitted the allowance for the legitimate return on the large investment of farm capital. After taking the total farm production expenses and the legitimate capital charge from the total cash receipts from farm marketings, the above years would show a sizable deficit each year. The USDA realized income is like a cancer destroying many efficient young farmers we could later need for our food and fiber. The farmer's average age is over 55 years.

How many Congressmen reading the farmers' income figures in the Economic Report of the President and similar publications for the years 1960 through 1964 knew that the farmers as a whole were operating in the red or living from their past accumulations?

The USDA quoted cash grain farms, return to operator and family per hour, in current dollars, thus:

Average 1947-49	-----	\$2. 20
1956	-----	1. 98
1957	-----	. 76
1958	-----	. 59
1959	-----	. 02

The 1959 return for the farm operator and family labor declined to .02 cents per hour. The USDA now changed their procedure for evaluating the operators' and family labor, thus:

"Sales of crops are now credited on all farms to the year harvested, even though some sales were made after January 1."

This method would credit the farmers with an income when harvested (mostly a paper income) and another income when the crops are fed and sold. This method shows an increased deceptive farm income, thus:

Current rates—Return per hour

1960	-----	\$0. 71
1961	-----	. 95
1962	-----	1. 20
1963	-----	2. 18

After Congress passed the 1910-14 parity price law, we wrote the chief statistician telling him the farmer could not buy nor get a loan with any part of parity as they were interested in the income. We asked him for the average cash income of the farmer and nonfarmer for this period. He stated that brought out some interesting lights, as the farmer had about \$200 per person to spend compared with the nonfarmer of over \$600 to spend for the 1910-14 parity period, or a 1-to-3 disparity.

This parity period has been revised but it still does not give the farmers equality with the nonfarmers. The general public uses price and money for exchange of their products and services. If our farm laws used price and money, the farmer would know what he was receiving and the Congressmen would have a clear knowledge of what he was voting for.

The use of realized income figures; the rental value of the farm dwelling; the home consumption of labor and expenses; the 1910-14 50-year-old parity base period to measure farm prices; giving credit to the crops the year harvested; omitting the legitimate return on the large investment of farm capital since 1959; printing farm income figures in the Economic Report of the President and other similar publications to look good to the general public (but a second look could show them very red) and similar unethical, deceptive methods are the cause of the farmers' average inadequate income today.

We need a farm program with the necessary controls for controlling the farmers' production, not like the rigid, stiff wheat controls the farmers voted down. Speed zones, traffic lights, one-way streets, et cetera, are necessary controls to safely and efficiently move the traffic. Stiff, rigid controls would tell us the time and route to use. The stiff, rigid wheat law had more controls on the farmer than on the farmers' crop production. For 15 years or more from our experience of attending farm meetings in different States, when we asked them: "Would you farmers take the percent of acres from production that creates the surplus if your received a fair price for the balance of your acres?" Their answer has always been an enthusiastical "Yes."

Mr. SIMMERMON. I have two tables here for the years 1960, 1961, 1962, and 1963.

The CHAIRMAN. They will be printed in the record.
(The tables referred to follow:)

The cash receipts from farm marketings, less the farm production expenses and the capital charge, gives the farmer and their family no cash income from farming

	<i>Billions</i>
1960:	
Cash receipts from farm marketings-----	\$34.0
Farm production expenses-----	26.2
Capital charge, 191.9 at 6 percent-----	11.5
Deficit-----	3.7
1961:	
Cash receipts from farm marketings-----	34.9
Farm production expenses-----	27.0
Capital charge, 191.1 at 6 percent-----	11.4
Deficit-----	3.5
1962:	
Cash receipts from farm marketings-----	36.1
Farm production expenses-----	28.3
Capital charge, 199.0 at 6 percent-----	11.9
Deficit-----	4.1
1963:	
Cash receipts from farm marketings-----	36.9
Farm production expenses-----	29.2
Capital charge, 205.4 at 6 percent-----	12.3
Deficit-----	4.6

An extra \$1 per bushel for the average 3.8 billion bushels of corn produced in the above years would give the farmers an income approximately equal to their farm production expense and the capital charge, but will give no income for their labor from farming.

This 20-year table also shows the farmers' situation :

	Prices paid by farmers 1957-59 equal 100 percent	Corn price per bushel received by farmers	Total live- stock and crops mar- ketings 1957-59 equal 100 percent	Farm operators' net cash in- come from farming— total, billion dollars	Factory workers dollars per hour	Total farm mortgage debt, billion dollars
1944.....	61	\$1.09	81	15.3	1.01	5.3
1945.....	64	1.27	81	14.9	1.01	4.9
1946.....	71	1.56	79	15.0	1.07	4.7
1947.....	83	2.16	82	14.1	1.21	4.8
1948.....	88	1.30	80	11.2	1.32	5.0
1949.....	85	1.24	85	9.9	1.37	5.2
1950.....	86	1.52	83	9.4	1.44	5.5
1951.....	94	1.66	84	10.5	1.56	6.1
1952.....	95	1.52	88	10.0	1.65	6.6
1953.....	94	1.48	92	9.7	1.74	7.2
1954.....	94	1.43	93	8.9	1.78	7.7
1955.....	95	1.35	96	8.2	1.86	8.2
1956.....	96	1.29	99	9.1	1.95	9.0
1957.....	99	1.11	94	7.9	2.05	9.8
1958.....	100	1.12	101	9.1	2.11	10.3
1959.....	101	1.04	105	7.9	2.19	11.0
1960.....	102	.997	107	8.8	2.26	12.0
1961.....	102	1.08	109	9.3	2.32	12.8
1962.....	103	1.10	111	9.2	2.39	13.8
1963.....	104	1.09	115	8.8	2.46	15.3
Average percent.....	70	-----	42	-42	142	188

From this 20-year table prices paid by the farmers were 70 percent more. Their total livestock and crops marketings were 42 percent greater but the farmers received 42 percent less income.

The total farm mortgage debt increased 188 percent while factory workers dollars per hour increased 142 percent.

Farmers corn price per bushel : \$1.09 in 1944 and \$1.09 in 1963.

Mr. SIMMERMON. This does not include Government payment. This is from the farmers' farming.

The CHAIRMAN. I see.

Mr. SIMMERMON. Then over here this shows a table of what prices the farmer paid, the corn price, the total livestock and crops marketings.

The CHAIRMAN. You have them all itemized, that is all right. We have put them in the record.

Mr. SIMMERMON. Well, the total out there for the 20-year table price paid by farmers was 70 percent more. The total livestock is 42 percent greater, but the farmer received 42 percent less.

The total mortgage debt increased 188 percent while the factory workers' dollars per hour increased 142 percent.

Corn prices were about \$1.09 in 1944, and \$1.09 in 1963.

The CHAIRMAN. How much more have you got?

Mrs. SIMMERMON. I have two or three more pages.

The CHAIRMAN. Would you put that in the record?

Mr. SIMMERMON. These include your food.

The CHAIRMAN. I have to go vote now.

Mrs. SIMMERMON. We thank you for your kind consideration, and we surely would be of help to you.

The CHAIRMAN. If you have a program to offer more than criticism——

Mrs. SIMMERMON. Well, we think we have. We did not mean to criticize, but to get the farmer's picture in true focus.

The CHAIRMAN. But much of your statement is by way of criticism. What we would like to have from you is a method to cure the evils that you complain of.

Mr. SIMMERMON. That is what this one does, it shows the price of food.

The CHAIRMAN. I know, but showing the price does not help me any. The remaining part of your statement will be inserted in the record at this point.

(The statement is as follows:)

1963 total national income (in millions) -----	\$478, 500
\$478,500,000,000 gives 47,436,000 U.S. families an average income per family -----	\$10, 087
1963 farmers total financial condition from farming:	
Cash receipts from farm marketings (in millions) -----	\$36, 925
Farm production expenses (in millions) -----	\$29, 034
Capital charge on \$205,400,000,000 at 6 percent (in millions) -----	\$12, 324
<hr/>	
Deficit (in millions) -----	\$4, 433
3,573,000 farm families at \$10,087 per family (in millions) -----	\$36, 040
For equality with nonfarm, total deficit (in millions) -----	\$40, 473
USDA farm production; 75.7 percent food; 10.2 nonfood; 14.1 exports.	
75.7 percent of the farm marketings receipts (in millions) -----	\$27, 952
75.7 percent of the 4,433,000,000 deficit (in millions) -----	\$3, 355
75.7 percent of the 40,473,000,000 deficit (in millions) -----	\$30, 638
193 million population consuming 3 meals per day for 1 year (in millions of individual meals) -----	211, 335
211,335,000,000 meals at \$27,952,000,000 consumers added cost (cents per meal) -----	0. 132
211,335,000,000 meals at \$4,433,000,000 consumers added cost (cents per meal) -----	. 021
211,335,000,000 meals at \$40,473,000,000 consumers added cost (cents per meal) -----	. 191

The major portion of the \$40,473 million would be new wealth and would increase the farmers, the consumers, and the U.S. Government buying power without any major food purchasing problems.

The 1963 food processors and handlers received \$48 billion or \$20 billion more than the farmers received for producing the food.

From USDA Economic Research Service:

Food is one of the better buys in this country. Today we are purchasing more of the foods we like, more foods that are partially or wholly prepared for the table, and more kinds of food the year around than we did even a few years ago. And yet, the share of our take-home pay going for food is at an alltime low. Our national records of food expenditures tell us that in relation to after-tax income we have fared well. For, though per capita food expenditures increased 13 percent between 1954 and 1963, disposable personal income went up 34.3 percent during the same period. If we relate these two figures, we find that the share of our after-tax dollar going for food declined from 22.4 percent in 1954 to 18.9 percent in 1963. More recent data show that this trend is continuing. During the second quarter of 1964 (April through June) food expenditures represented only 18.4 percent of our disposable personal income—the lowest percentage in our history.

These statistics measure changes in terms of current dollars. If we consider the same data in terms of 1963 dollars (to take out any inflationary effects) the picture is indeed a good one. On this basis, our take-home pay increased 18.6 percent, while food expenditures were about the same as in 1954. Hence a net income gain for other uses.

Variation in meat prices :

Since 1954, we have increased both the quality of, and the expenditures for meat. The average U.S. consumer spent about \$92 for meat in 1963, \$15 more than he spent in 1954. Nevertheless this \$92 was a smaller share of the average personal disposal income—our after-tax income—than was the \$77 in 1954. Furthermore, the average consumer got 10 pounds more meat with this smaller share.

It is a USDA established fact that the farmers, after deducting their farm production expenses and capital charge from their cash receipts for farm marketings did not have anything left for their labor or their free family labor for the years 1960-64.

An extra dollar per bushel added to the average 3.8 billion bushels of corn produced in the above years would give the average farmer the approximate results—no income and no loss.

No rural or urban group will exist very long living from their capital investment.

France with a lower standard of living than the U.S. support their farmer's corn price at \$2.30 per bushel.

West Germany with a higher standard of living support their farmer's corn price at \$3.02 per bushel.

The United States, the wealthiest country on the globe, support their farmer's corn price at \$1.25 per bushel with the above results; \$3.02 on corn and other grains, livestock and milk with comparable prices, still would not give the farmers an income equable with the nonfarmers but it would enable the 25- to 40-year-old farmers to continue farming.

The farmer's corn price should be supported to give the rural and urban people an equable income, based on their capital and labor. The other grains should be supported comparable to their feed value to corn. For example:

(1) If the support price of corn was \$3.02 per bushel the other grains' feed value price would be approximately thus :

	<i>Amount per bushel</i>
Corn.....	\$3. 02
Barley.....	2. 32
Oats.....	1. 60
Sorghum grains.....	2. 72
Wheat.....	3. 32
Soy beans.....	4. 01

Wheat a major surplus problem could now be fed.

(2) For the continued normal supply of meat and milk with the above grain prices, the cattle, hogs, and milk price should be supported approximately thus :

	<i>Amount per hundredweight</i>
Cattle supported at 13½ ratio to corn, 600 to 900 lbs.....	\$40. 77
Hogs supported at 12 ratio to corn, 190 to 210 lbs.....	36. 24
Milk supported at 16 cents per qt.....	7. 44

The grain, livestock and dairy farmers would take the USDA estimated percent of surplus building acres of grains, hay, pasture and grazing land from production without payment. The farmers would receive a fair support price for the USDA estimated needed production giving them an income equable with nonfarmers for their labor and capital.

The cost of a farmers' subsidy or direct payment is several times more expensive than a support price which should save the U.S. Government over a billion dollars, giving the farmers and the Government a more simplified and just farm program.

An improved support price feed grain program would give the large influential and the small farmer a fair price for the necessary production, instead of them receiving a subsidy or a direct payment for what they stated they produced to their ASC committee.

A graduated monthly grain support price would keep the grain dealers buying the grains instead of them increasing the CCC stock.

For example, 7 acres production increase—327 pounds of seeds required to plant 1 acre each of the 7 crops—corn, oats, barley, sorghum grains, soybeans, winter wheat, and hay from average production increased to 15,023 pounds or 4,594 percent.

After the farmers received a fair price equable to the nonfarmers for the first or test year, if some crops, livestock, or dairy products production were excessive, next year with an added program of prorating one-half the surplus-disposal cost back to the farmer-producer he naturally would produce more of the needed agricultural products.

The farmers diverting 60 to over 100 million acres from production without payment and receiving a fair income gives the President what he stated he wanted.

The CHAIRMAN. The committee will stand in recess until further order from the chairman or the committee itself. We hope to obtain more information from the Department of Agriculture before we are ready to mark up the bill.

(Whereupon, at 5:05 p.m., the committee recessed, to reconvene subject to the call of the Chair.)

FOOD AND AGRICULTURE ACT OF 1965

THURSDAY, JULY 15, 1965

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The committee met, pursuant to recess, at 10:10 a.m., in room 324, Old Senate Office Building, Senator Allen J. Ellender (chairman) presiding.

Present: Senators Ellender, Holland, Talmadge, Jordan of North Carolina, McGovern, Bass, Mondale, Russell of South Carolina, Aiken, Young of North Dakota, Cooper, Boggs, and Miller.

The CHAIRMAN. The committee will please come to order.

The main purpose of this meeting is to give opportunity to the Secretary of Agriculture, Mr. Freeman, to answer a few questions that may be propounded to him by the Senators, some of whom were not able to hear all of the testimony. I have requested this hearing in order that I might ask, as a result of the hearings we have had in the last 3 or 4 weeks, some questions.

These hearings are based on testimony that was presented to this committee on the bills that we now have before us.

Mr. Secretary, I presume that if necessary you can remain here as long today as necessary.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. As we may need you.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. I do not know that we can conclude the hearings this morning but it will be my purpose to suggest to the committee that we meet until at least 12:15 or 12:20, and then if there are more questions to be asked that we will recess until 2:30 o'clock.

Senator AIKEN. Mr. Chairman, I shall move to report out the rural water bill at the first opportunity, because the arguments that have been presented have been proposed by organizations which are dead against nonprofit organizations and the like. And I can move it now, if you will let me.

The CHAIRMAN. I think that we will make more progress——

Senator AIKEN. Instead of making the amendments on the floor.

The CHAIRMAN. I think that we can make more progress, instead of getting into a discussion of that now, if we do it later. Otherwise we might be discussing this for some time.

Senator AIKEN. It has been here since about the 15th of January.

The CHAIRMAN. I understand that, but the hearing was not printed until about a week ago. I think that we would make more progress, Senator Aiken, if we did it otherwise.

Senator AIKEN. May we be sure that we will get to it at our next regular meeting?

Senator HOLLAND. I am quite agreeable to that. I will agree to have a vote on it then.

Senator AIKEN. Yes.

Senator HOLLAND. I think that I should say, for the information of all of the members of the committee present that what is disturbing me is, first, the stating of the limit as to the size of the towns to which these so-called agricultural loans can be made, which figure is 5,000, which is a very different limitation from that which is in the REA bill or any other such bill that I know of.

In Florida there are quite a number of county seats that have been down there for all of my life, and they would come under this figure of 5,000 limitation and they are not in any sense rural or farm areas.

The second thing is that the proposed large rise in the amount of the annual limit on this type of loan that is for water services and the like is a jump, I think I am correct, from \$200 million to \$450 million a year. I think that it should be limited in some way so that through it the truly rural and truly farm needs will have preference given as compared with what I call subdivision development needs which in my State have presented most of the applications for this type of loan.

And I think that this agency, which is a very useful one, the Farmers Home Administration, is drifting away from the traditional needs for which it was created, for instance, it is asking to cut down very largely this year the amount to be supplied for the purchase of tenant farms. That was the original purpose, of course, for which it was set up in the Bankhead-Jones Act which was set up originally to help the poor farmers to enlarge their farms and the tenant farmers to acquire their farms. It is now proposed to cut this down very much and at the same time to jump it up from \$200 million to \$450 million a year lending capacity for these water loans and the like, without limiting it at all except to towns of 5,000 and to communities which may or may not have any relationship at all to agriculture or truly rural life.

In my State a great many of the applicants do not have any direct relationship to agriculture or to rural life. Those are the two things that have been bothering me.

I have been very frank about that to you. Is that not what I told you all along?

Senator AIKEN. Yes; but the thing that bothers me is that the urban people are reaching out more and more to take over our agricultural programs. This does not go for the Housing and Home Finance Agency because they have told me that in their opinion this is definitely an agricultural program and it should be handled by agriculture.

Senator HOLLAND. I am thinking in the other direction. I do not want the rural program to be swallowed up by what is truly not an agricultural program.

Senator AIKEN. I think it is in a desperate situation. That is, it is in our State. And they are truly rural.

Senator HOLLAND. We should meet their needs.

Senator AIKEN. And if they had water, their situation would be helped.

Senator MILLER. If you will yield?

Senator HOLLAND. Yes, I will.

Senator MILLER. My understanding is that we should recognize some engineering standards. I was not present during the testimony, but I happen to be a cosponsor of the bill, along with Senator Aiken and others. Is there any change being contemplated to incorporate in some standards?

Senator AIKEN. No. We had recommendations from people who were just against the bill—that was all. The pump manufacturers and well drillers thought that they should have the list of customers in each water system, and so on, and so forth.

The CHAIRMAN. I do not want to cut anybody off, but we have met today to hear the Secretary of Agriculture and it is understood that at our next regular meeting, which will take place next Wednesday—

Senator AIKEN. Next Wednesday I would like to have it voted up or down.

The CHAIRMAN. Very well. We will then take this up.

We are very glad to have you here, Mr. Secretary. I understand you have a short statement that you would like to make before we proceed to ask you a few questions.

Secretary FREEMAN. Yes, Mr. Chairman.

Might I ask your indulgence to present to this committee as quickly as possible just for identification four men who are in Washington today from around the country who serve as an advisory committee to the Commodity Credit Corporation. They constitute an advisory board. They have been extremely helpful in their guidance in the carrying forth of the policies of that important corporation which is very important to us. And I would like to acknowledge their contribution.

Would the chairman, Mr. LeRoy K. Smith, of Fort Collins, Colo., please stand, as well as Mr. Charles D. Lewis, of Leesburg, Va.; Mr. Lorimer T. Milton, of Atlanta, Ga.; and Mr. Frank W. Reed, of Lincoln, Nebr. Please stand up. I want the committee to see you gentlemen. You have been very helpful.

The CHAIRMAN. We are very glad to have you here.

All right, Mr. Secretary, you may proceed.

STATEMENT OF HON. ORVILLE L. FREEMAN, SECRETARY OF AGRICULTURE—Resumed

Secretary FREEMAN. Mr. Chairman, members of the committee, I appreciate this opportunity to make a brief progress report on food and agriculture as this administration begins its fifth fiscal year, and crosses the midpoint of its fifth calendar year.

GENERAL

American agriculture is in better shape and better balance today than it has been for the past decade. And today, midway in this decade of the 1960's, progress in the rural economy is such that prospects are bright for the latter half of this decade. If the policies and

programs which have contributed to this progress are continued, we will by the end of this decade secure parity of income for the family farmer with adequate resources, parity of opportunity for those Americans who live in the countryside, and at the same time be able to provide more nutritious food to more people at less real cost throughout the Nation.

Senator YOUNG of North Dakota. You are really optimistic this morning, Mr. Secretary.

Secretary FREEMAN. American farmers are earning better incomes this year than at any time in the past 12 years, and American consumers are spending less of their income for food than ever before.

Realized net farm income in 1965 will likely total almost \$13.5 billion, the highest level since 1953.

Yet, if consumers were spending the same percentage of their income for food today as in 1960, they would have had \$7 billion less to spend on other goods and services. The American people will spend a smaller percent of their take-home pay this year than last, and nearly 1.5 percent less than in 1960.

The year 1965 stands to be a year of record performance for food and agriculture in nearly every respect.

Net income per farm is expected to be over a third higher than in 1960.

Farm exports are holding at record levels.

Carryover stocks of grain will be at the lowest level since the mid-1950's.

Over 40 million Americans, many of them in low-income families, are receiving a better diet through direct distribution, food stamp, and school lunch programs, and through disaster feeding programs.

Prospects for maintaining this improved level of performance will depend on the continuing stability of the Nation's economy and on the actions taken by the Congress on the President's food and agriculture proposals now pending, which would extend and improve the policies which have proven so successful during the first 5 years of this decade.

Here in more detail is the economic picture of agriculture at mid-year:

1. Realized net farm income in 1965 is now expected to total \$13½ billion, the highest since 1953. Realized net is the income farmers have left after deducting all production expenses.

This new level is some \$1.8 billion more than farmers received in 1960.

[In billions of dollars]

	<i>Realized net farm income</i>
1960-----	11.7
1961-----	12.6
1962-----	12.5
1963-----	12.5
1964-----	12.9
1965 estimated-----	13.5

The current estimate for 1965 is based on actual results in the first-half of the year and solid prospects that the second-half will continue favorable.

Prices of farm products have strengthened this spring. In June they averaged about 10 percent higher than a year earlier. Prices of cattle and hogs have made very substantial gains as the upsurge in beef production leveled off and pork output was reduced. Prices of other products, such as broilers, feed grains, tobacco, soybeans, potatoes, and vegetables were also higher than a year ago. Cash receipts from the sale of farm products in the first-half of the year were some \$700 million more than in the same period in 1964.

With the new crop season at hand, some price declines partly seasonal in nature are likely. The July crop report indicated the likelihood of a record crop of soybeans. Wheat and feed grain production are estimated to be larger than in 1964 as are potatoes and most summer vegetables. Hog prices are near their summer peak.

Although the level of farm prices may well shade down during the last half of the year, it is likely to stay about the 1964 level. With larger crop output in prospect as well, gross farm income should continue to run well ahead of 1964.

For the full year 1965, gross farm income will likely show an increase of about \$1¼ billion, and even though farm expenses are rising, realized net income should show an increase of about \$600 million this year over last.

The 1964 figure of \$12.9 billion has been revised upward from \$12.6 billion based on recent information that farmers sold more out of their accumulated carryover stocks during 1964 than had been previously estimated. Such sales represent income realized in 1964 for products produced in earlier years.

2. The per farm income figures illustrate the substantial progress that has been made each year. Net income per farm has increased about one-third since 1960, adding about \$1,000 to the income of the average farm.

Year:	<i>Realized net income per farm</i>
1960-----	\$2, 956
1961-----	3, 299
1962-----	3, 401
1963-----	3, 499
1964-----	3, 727
1965 estimated-----	4, 000

The figures are set up in the prepared statement as you will note.

3. Higher farm income creates jobs and income in the nonfarm economy. Gross farm income in 1964 was over \$4 billion higher than in 1960. Farmers increased their expenditures for automobiles by over \$600 million and increased other expenditures for capital goods such as machinery and equipment by another \$400 million. As another example of the contribution of farm income to national prosperity, farmers increased their expenditures for fertilizer and lime by \$400 million.

With incomes up further in 1965, these expenditures and the flow of income to industry and industrial workers are going up further.

4. Farm exports continue at record levels, expanding outlets for U.S. farmers and helping to close the U.S. balance-of-payments deficit.

Farm exports in each of the last 2 years have totaled over \$6 billion a year compared with \$4.5 billion in fiscal 1960.

In the 1964-65 marketing year, exports of wheat totaled about 725 million bushels compared with about 500 million in 1959-60; rice 42 million hundredweight compared with 29; feed grains 20 million tons compared with less than 13; soybeans over 200 million bushels compared with 140; and dairy products nearly 7 billion pounds (milk equivalent) in 1964 compared with 800 million in 1960.

However, cotton exports were down to 4.5 million bales from 7.2 million in 1959-60.

5. Carryover stocks of grains have been reduced very substantially although cotton stocks have risen. The overall balance between production and use is much improved.

At the end of the 1964-65 season, stocks of wheat are down to about an 825 million bushel level compared with a peak of over 1,400 million at the end of the 1961 crop year; stocks of rice were down to 7 million hundredweight from 12 million; and feed grains about 55 million tons versus a record 85 million. Grain stocks will be reduced further in 1965-66.

But cotton stocks are up to 13.5 million bales compared with 7.6 million at the end of the 1960-61 season. The Congress is considering and this committee has under advisement substantial changes in the cotton program to reverse this trend.

6. Although farm income has been strengthened very substantially toward the goal of better living for farmers in the past 5 years, food is still a better bargain than ever before. This year, food costs for the average consumer will take about 18.3 percent of income after taxes. In 1960, food required 20 percent and the diet was much less abundant in beef.

If the same percentage of income was spent for food in 1965 as in 1960, consumers would have had \$7 billion less to spend on other things, or about as much as is spent annually for physician care, or more than is spent for radio and television sets, records, and musical instruments.

7. Our abundance is being used more effectively than ever before. Domestically, departmental food programs are now reaching over 40 million adults and schoolchildren each year. The volume of food distributed through domestic programs has increased from 900 million pounds in 1959-60 to 2.1 billion pounds in 1964-65.

Our food supplies also are playing a growing role in lessening foreign food shortages and in helping expedite economic development abroad. Our concessional sales and donations of food to foreign countries have continued to increase. During 1964-65, concessional food sales were \$1¼ billion, up 37 percent from 1959-60.

In addition, foreign donations were over \$250 million, up 53 percent from 1959-60. Furthermore, sales and donations of cotton and other nonfood products exceeded \$200 million this past year. In addition to the immediate benefits from this program, it is also helping create better prospects for commercial exports in the years ahead.

Mr. Chairman, when I first appeared before this committee, we enunciated some of the principles and policies which this committee in its wisdom had adjusted, shaped and strengthened and improved but which have been carried forward over these past 5 years. I thought that it might be appropriate at this midpoint to give this brief recap and to state that I do not believe that if these policies are continued and these programs are improved, that the goal we set down then 5 years ago for the period of the decade—the decade of the sixties—can be accomplished.

Thank you, sir.

The CHAIRMAN. All right. Mr. Secretary, you said that the farm exports continue at record levels. To what extent do Public Law 480 transactions account for these—more or less, in 1965?

Secretary FREEMAN. Less proportionately.

The CHAIRMAN. You have more cash sales?

Secretary FREEMAN. We have more cash sales. We have more of both, but the cash sales have increased much more sharply than the concessional sales.

The CHAIRMAN. You have stated that the per farm income has increased since 1960. Do you have figures to indicate the extent to which farms have decreased in number since that time?

Secretary FREEMAN. I would be happy to get accurate figures for the record later but roughly it is something like this, Mr. Chairman:

Referring to a base of an adequate-sized family farm which we define as one that grosses at least \$10,000 a year, does not use more than 1½ man-years of outside labor, there are about 50,000 fewer larger than family-sized farms. There are about 150,000 more adequate-sized family farms. There are about 600,000 fewer smaller than adequate-sized family farms.

The CHAIRMAN. Well, that in a measure accounts for the greater amount per farm, does it not?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And if you desire to add more to that after the record is presented to you for correction, you may do so, because I believe that it might be pertinent to have that information in the record.

Secretary FREEMAN. All right.

(The information referred to follows:)

Year:	[In thousands]	Number of farms ¹
1959	-----	4, 097
1960	-----	3, 949
1961	-----	3, 811
1962	-----	3, 688
1963	-----	3, 573
1964	-----	3, 472
1965 ²	-----	3, 376

¹ 48 States.

² Preliminary.

Family and larger than family farms, 1949, 1959, and estimate for 1964, United States¹

Class of farms	Farms (number in thousands)			Marketings (value in millions of dollars)		
	1949 ²	1959	1964	1949 ²	1959	1964
Expanding sector: ³						
Family ⁴	346	684	891	6,164	13,848	20,163
Larger than family ⁵	166	154	119	8,465	10,331	9,834
Total.....	512	838	1,010	14,629	24,179	29,997
Contracting sector: ⁶						
Family ⁴	4,301	3,120	2,451	11,513	9,221	7,045
Larger than family ⁵	100	20	11	616	112	62
Total.....	4,401	3,140	2,462	12,129	9,333	7,107
All:						
Family ⁴	4,647	3,804	3,342	17,677	23,069	27,208
Larger than family ⁵	266	174	130	9,081	10,443	9,896
Total.....	4,913	3,978	3,472	26,758	33,512	37,104
PERCENT OF TOTAL						
Expanding sector:						
Family.....	67.6	81.6	88.2	42.1	57.3	67.2
Larger than family.....	32.4	18.4	11.8	57.9	42.7	32.8
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
Contracting sector:						
Family.....	97.7	99.4	99.6	94.9	98.8	99.1
Larger than family.....	2.3	.6	.4	5.1	1.2	.9
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
All:						
Family.....	94.6	95.6	96.3	66.1	68.8	73.3
Larger than family.....	5.4	4.4	3.7	33.9	31.2	26.7
Total.....	100.0	100.0	100.0	100.0	100.0	100.0

¹ Alaska and Hawaii not included. Adjusted for census undercounting. Cropper not counted as independent units.
² Adjusted to changes in farm definition in 1959 Census of Agriculture.
³ Producing \$10,000 or more worth of marketings (1959 dollars).
⁴ Farms on which families are risk-taking managers using less than 1.5 man-years of hired labor.
⁵ Farms using 1.5 or more man-years of hired labor.
⁶ Producing less than \$10,000 worth of marketings (1959 dollars).

The CHAIRMAN. Are there any questions at the moment to ask the Secretary in respect to his most recent statement presented this morning? Senator Aiken?

Senator AIKEN. I have to go to the Foreign Relations Committee and I would like to commend the Secretary on his statement. I think that in this question of farm legislation a lot of it has been badly misnamed. It seems that every time a proposal is made to increase the farm income certain factors immediately start scheming as to how much of this increased farm income they can grab off.

If the Secretary can come up with any plan which will actually put the increased farm income in the hands of the farm families, they could, perhaps, go out and see what is happening in Santa Domingo, which sometimes is comparatively a peaceful place. [Laughter.]

The CHAIRMAN. I was handed a document from the Department indicating that the number of farms in 1960 amounted to 3,956,000, as compared to 3,382,000 for 1965.

In other words, in the space of 4 years the farm population has decreased by around a little under 600,000 farms.

Senator HOLLAND. That is consistent with the figures that he presented.

The CHAIRMAN. Yes. But I just wanted to put that into the record to indicate one of the factors that has caused the rise in the per farm income.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. So as to have the record straight, are there any questions to be asked of the Secretary on his statement today before we go into other questions?

Senator HOLLAND. What I want to do is to ask him to have furnished for the information of the Senator from Vermont and myself, within the next day or two the reason for the fixing of the 5,000 municipality limit in the other bill which was discussed a short time ago that we are going to deal with at our next meeting next Wednesday and, also, a list of the applications filed for the State of Florida. If you can give that to us in greater detail, all right, but I want the information for the State of Florida to illustrate the problems that I mentioned a few minutes ago in my discussion with the Senator from Vermont.

If we could have those tomorrow, we would appreciate it very much.

Secretary FREEMAN. Yes, sir.

Senator HOLLAND. I yield now.

Senator COOPER. Looking at the table on page 3 of your statement, in which you state that realized net farm income in 1964 was \$12.9 billion, do you know what part of that amount represents government payments?

Secretary FREEMAN. About 6 percent.

Senator COOPER. Is that an increase or a decrease from 1960?

Secretary FREEMAN. An increase.

Senator COOPER. An increase?

Secretary FREEMAN. Yes, sir.

Senator COOPER. The table on page 5 of your statement shows an increase in realized net income per farm. In view of the question Senator Ellender raised, pointing out an increase in the size of farms, would you say that the farmer is actually any better off from the standpoint of his total costs and the prices that he pays than he was in the year 1960?

Secretary FREEMAN. Yes; I think that these are representative figures. I think that the net income of \$4,000 is better than a net income of \$3,000.

Senator COOPER. You said, however, in answer to Senator Ellender that the farms are larger.

Secretary FREEMAN. This is the net income, though, Senator Cooper, which would include his costs that would have been deducted including the costs of any interest that he would pay as a cost of operation, if he had a larger farm. And, therefore, conceivably the return he would receive would not count against a return on his capital.

Senator YOUNG. Will you yield?

Senator COOPER. I yield.

Senator YOUNG. The situation is different, though, with different commodities, is it not? I know that in the wheat areas farmers are in

more financial difficulty than they have been heretofore, and the farm indebtednesses has been rising sharply. Do you have any figures on the farm mortgage indebtednesses and the indebtednesses of other sectors of the economy? I think we should have those figures in the record at this point.

Secretary FREEMAN. I will be happy to furnish those, but, roughly, the increase in the farm indebtedness is comparable to the increase in the industrial and consumer indebtedness. It has been roughly the same. They are about proportional. There has been throughout the Nation in the last 5 years a sharp increase in debt across the board, in industry and in consumer debt, and as I say, in farm debt, and as such, if we did have an economic recession, it would be felt even more strongly because of the high debt structure. But at the moment, at least, the farm debt and the industrial debt is about in proportion and the same relationship as we had 5 years ago.

(The information follows:)

Farm assets and debts, Jan. 1, 1960-65

[In billions of dollars]

Item	1960	1961	1962	1963	1964	1965 ¹
Total assets.....	203.9	204.3	213.0	221.0	228.9	237.6
Debt:						
Real estate debt.....	12.1	12.8	13.9	15.2	16.8	18.9
Non-real estate debt ²	12.8	13.4	14.8	16.6	18.1	18.6
Total.....	24.9	26.2	28.7	31.8	34.9	37.5
Owner's equities.....	179.0	178.1	184.3	189.2	194.0	200.1

¹ Preliminary.
² Includes CCC loans.

Senator YOUNG of North Dakota. Will you put the figures in on this?

Secretary FREEMAN. Yes.

Senator COOPER. Just one other question, Mr. Secretary. On page 7 of your statement you note, "Domestically, departmental food programs are now reaching over 40 million adults and schoolchildren each year."

The CHAIRMAN. Senator Cooper, would you mind if I placed in the record at this point the actual figures that we now have as to the increase in farm debt, since Senator Young has raised the subject?

In 1960, the farm mortgage debt was \$12,074 million, and the latest for 1965 is \$18,700 million. And now for the short-term debt, in 1960 it was \$11,600 million, and the latest for 1965 is \$17,600 million. That affects farms only.

Senator COOPER. I should like to have also the figures showing the total capital investment of farmers.

Secretary FREEMAN. The total?

Senator COOPER. Yes.

Secretary FREEMAN. I have forgotten that figure. I will be happy to put that into the record. It is a very significant figure of some \$400 billion that I have in mind.

The CHAIRMAN. One of the biggest on record.

Senator COOPER. I think it would be good to have for comparison with the debts.

The CHAIRMAN. We will get that.

(For information requested above, see p. 1276.)

Senator COOPER. I wish that the Department would supply a statement showing its criteria for the distribution of food in these food programs.

Secretary FREEMAN. We will do so.

Senator COOPER. Including the method of administration that is used.

Secretary FREEMAN. Yes, sir; we will be happy to do so.

(The information follows:)

CRITERIA FOR THE DISTRIBUTION OF FOOD

The food programs referred to include the school lunch and special milk programs, the food stamp program, and the program for donation of foods acquired under price support and surplus removal programs to school lunch programs, charitable institutions, and needy families. Each of these programs is administered within the State by an appropriate State agency, in most cases by the State department of education or the welfare department. The criteria for distribution of food assistance under each of these programs are as follows:

1. *School lunch program.*—Under the National School Lunch Act, any non-profit school operating a nonprofit lunch program is eligible for food assistance in the form of cash grants and foods purchased and donated by the Department of Agriculture under section 6 of the act.

2. *Special milk program.*—All nonprofit schools are authorized to participate in the program. The enabling legislation also authorizes the participation of nonprofit summer camps, child-care centers, and other nonprofit institutions devoted to the care of children.

3. *Commodity donation program.*—Section 32 of the act of 1935 and section 416 of the Agriculture Act of 1949, as amended, authorize the donation of foods acquired by the Department to schools, charitable institutions, and needy families. Schools operating nonprofit lunch programs receive donated foods on the basis of the number of children eating in the lunch program; institution receive foods on the basis of the number of inmates who pay less than the normal charge prevailing; needy families are certified to receive donated foods by local welfare departments in accordance with income standards closely related to each State's standards for the granting of public assistance under the federally aided public assistance programs administered by the Department of Health, Education, and Welfare.

4. *Food stamp program.*—The eligibility standards for this program and the application of such standards by local welfare departments are virtually identical to the procedures followed to determining the eligibility of needy families to receive donated foods.

The CHAIRMAN. Are there any further questions—that is, on the statement? I thought that we would clear that up first.

Senator MILLER. I have made a rough calculation, using the figures that Senator Ellender had regarding the number of farms in 1960 and those in 1965, and I find that if you divide the number of farms in 1960 into the \$11.7 billion of income that comes out to about \$3,000 per farm, and that if you divide the number of farms in 1965 into the estimated \$13.5 billion of income, that it comes out to about \$3,400. I do think that we ought to take that difference into account, because in your statement it states that the net income per farm has increased about one-third since 1960. We have to have \$4,000 per farm to equal that. And by using the lower number of farms we come out only to

\$400 increase, which, I think, would be more realistic. I would like to have the record show that.

First of all, I want to commend you and your agricultural advisers and agricultural service and agricultural attachés, particularly those in Europe, for the outstanding job that they have done regarding our exports.

It was my privilege recently to attend a conference in Dublin. And the figures that we have asked for showing the increases in exports indicate outstanding performance. And I do want you to know that we appreciate that.

I would like to ask you this: On page 1 of your statement you say, "If the policies and programs which have contributed to this progress are continued, we will, by the end of this decade, secure parity of income for the family farmer," et cetera.

What is your definition of "parity of income"? Is that the same as parity in price?

Secretary FREEMAN. No. There is quite a difference between parity of income and parity of prices.

Parity of income, as I think of it, is a useful goal to really measure income. Parity of prices is a bit more deceptive because it goes back to a very old base.

By "parity of income," I mean a return to the producer equivalent of 5-percent return on his net capital and the equivalent of skilled labor wages for himself. And on that basis, he is getting an equivalent return roughly comparable to other segments of our economy.

Senator MILLER. What would he have to have for net income for 1965 to constitute parity of income? You estimated that we would have \$13.5 billion of net farm income. How much would he have had to have to have parity of income?

Secretary FREEMAN. That, of course, would depend upon how many farm units there were and it would also depend upon the efficiency of their operation. It would depend upon a host of factors that would be pure speculation for me to try to put a number on now.

Senator MILLER. Could you work that out and supply it for the record?

Secretary FREEMAN. I will do my best.

Senator MILLER. I am not asking you to go into a long procedure on this, but it seems to me that we are talking about parity of income, and that when we do we ought to know what we are shooting for in dollars and what we expect to get in 1965.

(The information follows:)

According to preliminary estimates, there were 1,010,000 farms with value of sales of \$10,000 or more in 1964. The average realized net income on these farms is estimated at \$8,241 per farm.

An average increase of 11 percent or around \$900 in realized net income per farm would have been required on these farms to bring their average net income up to the estimated parity return for 1964.

Substantially greater percentage increases in realized net income per farm would have been required to bring the average net income of the farms with value of sales of less than \$10,000 up to the parity return level.

Information on the parity income position of farms for 1965 is not yet available.

Secretary FREEMAN. Very well.

FEED GRAINS

Senator MILLER. I would like to ask you this. On page 2 of your statement: "Carryover stocks of grain will be at the lowest level since the mid-1950's."

How much of that drop in carryover stocks is attributable to our increase in exports and to our increased domestic consumption, or is it all?

Secretary FREEMAN. I would say relatively a small part of it is due to either. Our domestic consumption has stayed about constant. It has gone up a little bit. Our exports have gone up significantly, but, of course, our yield per acre has increased even more.

The basic reason for the cutback in stocks has been the programs that have been reported by this committee and passed by the Senate and the House, which have made it possible for us, frankly, to keep out of production about 50 million acres of cropland, thus we could have a fair balance between the supply and the demand, actually produce a bit less than demand, and work off surplus stocks.

May I say that I hope that I am not being immodest when I say that I feel that the Department has done a really remarkable job of working out such programs. We have been able to increase farm prices and still work off very heavy stocks of grain by very carefully moving them in the market. But the prime cause has been the programs to cut back production.

Senator MILLER. I have seen some figures which indicate the amount of increased exports, plus the amount of increased domestic consumption, and those increases come pretty close to the amount of the reduction in carryover stocks. This is what really prompted my question. I am not saying that they are identical, but they come fairly close.

Do you have any figures on this?

Secretary FREEMAN. I do have. Mr. Jaenke has just handed me some figures on this which would show that the increase of the total utilization has been about 5 million tons and that the decrease in carryover has been 30 million tons.

Senator MILLER. The increase in utilization includes that?

Secretary FREEMAN. The 5 million tons.

Senator MILLER. It includes exports?

Secretary FREEMAN. It includes exports; yes, sir.

GENERAL

Senator MILLER. All right. Now, one other thing. You talk about realized net income in 1965, a total of \$13.5 billion, the highest level since 1953. Would that statement be accurate in respect to what we call real income measured in terms of equivalent purchasing power of the dollar?

Secretary FREEMAN. Yes.

Senator MILLER. For example, on page 3 you say this, "This new level is some \$1.8 billion more than farmers received in 1960." That is, referring to the 1965 estimate farm income.

Now, in 1960 the dollar had a purchasing power of 46.6 cents and today it has a purchasing power of 42.2 cents. If you apply those differences you would find that there is only a \$500 million increase in income, rather than the \$1.8 billion.

I would like to invite your attention to that in connection with the points brought out by Senator Cooper regarding the increase in farm indebtedness. In my State I find many farmers are living not out of net income increases, but out of increased borrowings and out of returns on their income tax returns. I think that we ought to talk in real purchasing power increase rather than in just gross figures, which may not be meaningful.

Secretary FREEMAN. I would not want to give you the impression from this table that we have accomplished parity of income for American agriculture. Of the some 3 million producers, roughly, according to the current definition, why, there are only about 400,000 who today have close to parity of income. And there are 2½ million who are far short of parity of income. The point I am making is that I want to bring to the attention of this committee that I think that the programs that this committee has sponsored and this Congress has passed have started us moving in the right direction.

Senator MILLER. My last question. Earlier this year do you recall a statement that appeared in the budget, at least it was contained in the budget for the Department of Agriculture, to the effect that because of the situation we could only expect 1 million farmers to have a decent living in the future, even with the continuation of the farm programs. Do you subscribe to that statement?

Secretary FREEMAN. I do not recall there ever having been such a statement in any Department budget or in any communication by the President.

Senator MILLER. I will place that in the record. It appears in the Budget in Brief, a document which I did not bring along with me, but that statement appears in a Budget document.

In any event, assuming that it is there, would you subscribe to that statement?

Secretary FREEMAN. I would not subscribe to that statement. I know of no such statement being made, but what I have said earlier is quite clear, that our objective is to have more adequate-sized family farmers and have fewer smaller-than-adequate farms that cannot earn a decent living for the people on them. That is the goal that we seek to reach and to provide at the same time alternative sources of income for the people in rural America, so that they can live in their home communities. And, now, how many farms we might end up with in terms of adequate-sized farms that can return a fair living to their owners is something that I think no one can accurately predict.

The CHAIRMAN. Mr. Secretary, I presume that if this statement to which the Senator from Iowa refers was in the budget you are not responsible for it?

Secretary FREEMAN. That is correct.

Senator MILLER. I did not mean to infer that the Secretary was responsible for that. I just wanted to elicit his opinion of it.

You do not have any estimated figures on that as to the number of farmers that would fall within the concept of a decent living for farmers?

Secretary FREEMAN. No.

Senator MILLER. Thank you.

The CHAIRMAN. Are there any further questions as to the Secretary's statement?

Senator JORDAN of North Carolina. I would like to point out that I think that he will agree with this, that an adequate-sized farm depends upon what the farmer is raising.

Secretary FREEMAN. That is correct.

Senator JORDAN of North Carolina. I know that there are chicken farmers with 2 acres of land who raise a lot of chickens and they either get rich or they go broke.

Senator TALMADGE. Do you know of any that have gotten rich?

Senator JORDAN of North Carolina. I do not know of any who got rich, but it does depend on the size of the farm.

Secretary FREEMAN. Yes, sir: it surely does.

Senator JORDAN of North Carolina. It depends on what he raises.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Are there any further questions on the Secretary's statement this morning?

If not, Mr. Secretary, as I stated a moment ago, pursuant to the hearings that we had several weeks ago I am sure that most of us have some questions that we would like to ask you. If it is agreeable to the committee we can take each commodity and discuss it separately, making the round of Senators to see if they have any questions other than the ones that I am going to propound to you now.

WHEAT

During the course of our hearings we heard protests from the wheat users against the administration's proposal to increase price supports from 90 to 100 percent of parity on domestic certificated wheat.

They point out that this program requires that they pay an extra charge in order to use wheat and ask why they should be discriminated against.

They also say that this is a tax directed at a basic food product and that the poor people eat more bread than the rich people.

Is this not a curious way in which to make war on poverty?

We would like to have your comment as to that.

Secretary FREEMAN. My comment, first, is that this is not a tax in any sense of the word and I am confident that the courts of the United States will so rule in litigation that is pending in connection with it. Rather, this is a method whereby the farmer, for the first time in 19 years, can get a little increase in his pay. The cost of bread during this period has gone up 8 cents. The value of wheat in a loaf of bread has not gone up at all. And the farmer's share has not gone up at all. And his costs have gone up during that period of time.

This would mean that the farmer, for the first time in 18 years, will get approximately one-half a cent increase on the amount of wheat that goes into a loaf of bread. In effect it is a way of making it possible for the farmer to get not as a subsidy and not from the taxpayer, but rather as a 100-percent American, to get from the market his fair return for what he produces and contributes.

The CHAIRMAN. Well, now, as to the charge of discrimination, why should you not apply the same principles to corn and to dairy products? Here the Government pays a subsidy that is by way of price supports and here you seek to impose—I will not say that it

is a tax, but you seek to have the consumer pay instead of the taxpayer.

Secretary FREEMAN. I would say, Mr. Chairman, that wherever it is possible for the farmer to get a fair return in the marketplace, that it is highly desirable that he should and only fair that he should. This is not always possible. In feed grains the feed grains are marketed not as feed grains but through animals.

In cotton, to pick another illustration, the competition is so intense with the manmade fibers that it is unrealistic and impossible to try and follow a similar approach. But wherever it can be done, and this applies to two commodities, wheat and rice, I think it is only sound policy and fair and equitable that the consumer should pay a fair return to the producer in cost of production for the farm commodity. This is exactly what they do for automobiles, for refrigerators, for freezers, and other things. It is not sound policy that the farmer has to take a subsidy from the taxpayer in order to get his fair return in the marketplace.

The CHAIRMAN. You did not mention milk and dairy products. Why could you not pass that on to the consumer, as well as on tobacco?

Secretary FREEMAN. I think that you could in tobacco. I think there is a real question in dairy products, particularly because butter is a primary one, and in butter you face the competition of vegetable oils, which makes it extremely difficult to get an adequate price in the marketplace; and, therefore, we have a little different kind of program in dairying.

The CHAIRMAN. The charge is made that the certificated-type program means wheat farmers pay less attention to the production of quality wheat, since they get certificates regardless of the quality or the kind of wheat produced. What are your comments on that charge?

Secretary FREEMAN. I think that charge is not accurate, Mr. Chairman. The wheat moves to market on a free market basis and is priced in the free market in terms of its value and its differential in the market and, therefore, the very values of wheat and the incentive for producing a higher quality wheat reflect themselves in the free market as they properly should.

The CHAIRMAN. What about the price supports on wheat—have you established any standards by which the price supports are to be made available?

Secretary FREEMAN. We are in the process of working out some standards which could apply to certificates which would prevent the production of so-called trash wheat, very low quality wheat varieties that might come in and with the certificate would be economically feasible to produce, but which would not have any real value in the market.

Senator YOUNG. Will you yield there?

The CHAIRMAN. Yes; certainly.

Senator YOUNG. I have some figures here on cash wheat prices in Montana for early July 1965. I had heard recently that wheat had dropped to as low as 90 cents a bushel on the cash market. This is true at Glasgow where recently the price of ordinary wheat was 89 cents, but 16 protein wheat was \$1.11 at Great Falls, Mont.—and 16

protein wheat was \$1.46, more than 50 cents a bushel higher than ordinary wheat in Glasgow. So why would a farmer produce ordinary wheat when he can get 40 to 50 cents a bushel more for a high protein wheat or about one-third more?

The CHAIRMAN. What I had reference to was the fact that a farmer may be prone to produce quantity rather than quality.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. That is what I am aiming at. The charge is made that farmers are going to produce wheat, if you have a price support, just to get the Government into the act of supporting him irrespective of the quality of the wheat.

Now, the question is, Have you established in the past, or do you expect to establish in the future, rules and regulations governing the support price to be put on the various kinds and qualities of wheat?

Secretary FREEMAN. We have in the past had discounts and premiums in relation to the support price.

The CHAIRMAN. Can you put that in the record here as to what they are?

Secretary FREEMAN. Yes, we certainly will.

The CHAIRMAN. Do so at this point.

Secretary FREEMAN. Yes. And in this instance we would propose to use discounts on a comparable basis in order to prevent the production of very low quality wheat that might be produced in heavy quantity.

(The information follows:)

1965 wheat price-support program schedule of premiums and discounts

	<i>Cents per bushel</i>
1. Class premiums and discounts:	
(i) Premiums: Hard Amber Durum (not applicable to undesirable varieties)-----	+5
(ii) Discounts:	
Durum-----	-5
Red Durum-----	-20
Mixed wheat (mixtures of classes other than contrasting classes)-----	-2
Mixed wheat (mixtures of contrasting classes)-----	-10
2. Grade premiums and discounts:	
(i) Premium: Heavy, No. 2 or better-----	+2
(ii) Discounts:	
No. 2-----	-1
No. 3-----	-3
No. 4-----	-6
No. 5-----	-9
Sample on test weight only:	
Hard Red Spring 9 cents plus 3 cents for each pound or fraction thereof below 50 pounds. All other classes 9 cents plus 3 cents for each pound or fraction thereof below 51 pounds.	
Sample on account of total defects containing not in excess of 3 percent heat damage:	
9 cents plus 2 cents for each percent or fraction thereof above 20 percent.	
Smut:	
Light smutty-----	-2
Smutty-----	-6
Garlic:	
Light garlicky-----	-5
Garlicky-----	-10
3. Variety discount-----	-20

The following varieties listed by class will be subject to discount. This discount is in addition to any other applicable discount:

Hard Red Winter	Hard Red Spring	Durum	White	Hard Red Winter
Blue Jacketg.....	C.T. 231.....	Golden Ball.....	Fifty Fold.....	Kan Queen.
Cache ¹	Gasser.....	Peliss.....	Florence.....	Kawvale.
Chiefkan.....	Henry ²	Pentad.....	Greeson.....	Nured.
	Lathrop ²			
Cimarron.....	Kinney.....		Rex.....	Seabreeze.
Early Blackhull.....	Premier.....		Sonora.....	
KanKing.....	Progress.....			
Kharkof MC 22.....	Russell ²			
New Chief.....	Spinkcota.....			
Pawnee Sel. 33.....	Sturgeon.....			
Purkof.....				
Red Chief.....				
Red Hull.....				
Red Jacket.....				
Stafford.....				
Wasatch ³				
Yogo.....				

¹ Except in Idaho and Utah.
² Only in Minnesota, North Dakota, and South Dakota.
³ Except in Colorado, Idaho, and Utah.

4. Protein premiums: (Applicable to Hard Red Winter, Hard Red Spring, and Hard White Wheat of the varieties Baart, Bluestem, and Burt grading No. 3 or better. Not applicable to the undesirable varieties.)

Protein content			
Percent	Cents per bushel	Percent	Cents per bushel
12.0-12.4.....	+1½	15.0-15.4.....	+10½
12.5-12.9.....	+3	15.5-15.9.....	+12
13.0-13.4.....	+4½	16.0-16.4.....	+13½
13.5-13.9.....	+6	16.5-16.9.....	+15
14.0-14.4.....	+7½	17.0-17.4.....	+16½
14.5-14.9.....	+9	17.5 and above.....	+18

The CHAIRMAN. In connection with that, would there be any advantage to have quality discounts and premiums reflected in the value of the certificates rather than in the loan price?

Secretary FREEMAN. Yes. I think there would be.

The CHAIRMAN. And do you propose to do that?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Have you started?

Secretary FREEMAN. We are working on this. Actually, what will take place here we think with wheat finding its price in the market, because of this low loan rate, is that premiums in high quality wheat will reflect themselves in market prices as Senator Young's statement clearly shows. However, premiums will not prevent the production of very low quality wheat varieties in heavy quantity. In those instances we would consider to discounting the certificate.

The CHAIRMAN. Well, then, in that connection, if all wheat is supported at 100 percent of parity might not the market price be somewhat above the loan level resulting in a consumer price above parity, particularly with respect to the kind of wheat that the Senator from North Dakota has been referring to?

Secretary FREEMAN. This gets to the heart of the question of resale. If we had the prices move up to 125 percent of the loan rate before we could sell anything out of Commodity Credit Corporation stocks this could very well happen and it is one of the reasons why I think

we have to view any change in operating procedures here very, very carefully and why I vigorously oppose any such change. As long as we are able to move our surpluses into the market at 105 percent plus the carrying charges, there will be a fair relationship between 100 percent of parity on domestic wheat, which is our goal, and in that fashion the consumer will be adequately protected from any runaway prices, and by the same token the farmer will get an adequate income, and this is what we seek to accomplish.

The CHAIRMAN. It would seem to me that if you applied these rules and regulations on wheat certificates, rather than on the loan prices, that there would be some value to that.

Secretary FREEMAN. There certainly will be in order to discourage production of undesirable varieties or "trash" wheat. We will propose to consider that.

The CHAIRMAN. Now, could we, instead of increasing the maximum support levels to 100 percent of parity, provide the producer with the same income by issuing more domestic certificates, say, about on 600 million bushels?

Secretary FREEMAN. Yes.

The CHAIRMAN. I wish that you would give thought to that, because it might take away the sting that has been registered here by quite a few manufacturers of wheat commodities.

Secretary FREEMAN. I would like the record to show quite clearly that the extent to which we issue certificates in excess of the domestic milling and processing requirements, it becomes a direct increase to the budget. You are then transferring the cost from a proper charge that the consumer should pay for the commodity back to the taxpayer. And as I said earlier, wherever possible, I think we ought to pay for food in the marketplace and not pay for it under a tax subsidy.

The CHAIRMAN. I would be in complete agreement with that statement if we could apply it to all commodities and not only on one group.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. That was the point that I suggested a while ago.

Secretary FREEMAN. I realize that.

The CHAIRMAN. I have been informed that since the hearings, efforts have been made by the starch manufacturers and people who use gluten and other products from wheat for industrial purposes, that they are making efforts to iron out their differences with the Department. Would you be in a position to state whether or not that is correct and the extent to which agreement has been reached? Or what you could prognosticate?

Secretary FREEMAN. I am informed and Mr. Jaenke has participated in these discussions in much more depth than I have, that generally a working arrangement agreement has been accomplished between the corn starch and wheat starch people in regard to this and that we have been able to overcome some of the inequities that were brought into focus during the testimony.

The CHAIRMAN. Well, now, in anticipation that the committee might consider a domestic allotment, of, say, from 100 to 200 million bushels more than actual domestic consumption in order to protect farm income rather than 500 million bushels at full parity and the rest at whatever it would bring in the market, would you furnish

some facts and figures to indicate the extent to which we would have to increase the additional domestic certificates to attain this objective?

If you could furnish figures for the record, we would appreciate that.

Secretary FREEMAN. Yes, sir.

(The information follows:)

Number of bushels of domestic certificate wheat at various support levels needed to equal proposed domestic certificate return under S. 1702

Total domestic support dollars	Loan rate dollars	Value domestic certificate dollars	Domestic allocation (million bushels)	Total certificate return (million dollars)
2.50	1.25	1.25	500	625
2.00	1.25	.75	833	625
1.90	1.25	.65	961	625
1.80	1.25	.55	1,136	625

The CHAIRMAN. Are there any further questions on wheat?

We will take this up item by item. I believe that we will make better progress that way if that is agreeable to the committee.

Senator Holland?

Senator HOLLAND. I will yield to the Senator from North Dakota and then I will come next.

Senator YOUNG of North Dakota. Did I understand you to say that you would discount the wheat certificates that would be paid for inferior quality wheat?

Secretary FREEMAN. Yes; for the trash wheats.

Senator YOUNG of North Dakota. This would be the first time that you have done that?

Secretary FREEMAN. Yes.

Senator YOUNG of North Dakota. I have no objection to that. I think it should be done.

Now, with respect to corn and other grains where the production payments are made out of the Treasury rather than having the consumer paying them, do you have any discount for poor quality corn?

Secretary FREEMAN. Discounts are applicable to the basic loan and purchase rate, but price-support payments are not discounted for a lower quality in the feed grains. The answer is "No."

Senator YOUNG of North Dakota. That answers my question.

The CHAIRMAN. Senator Holland?

Senator HOLLAND. I would like to go back to the question raised by the chairman about the starch people and the conversations that have been going on between the producers of the corn-non-food parties and the wheat-non-food parties which I understand have resulted in an agreement between both of those groups and the Department of Agriculture so as to keep those two great commodities in the same relative economic situation as they have been due to natural growth, and I wonder if I might state for the record my understanding of what has gone on, and then ask the Department to comment on whether what I have been told is the agreed-upon wording to cover this matter in the bill, and if I have not received the correct information, I shall hope that you will correct it, because I think that the

committee will want to make the necessary adjustment in this matter as has been suggested by the chairman.

Let me read what I understand has transpired; namely, that a series of conferences have been held between representatives of the corn and wheat industries and representatives of the U.S. Department of Agriculture regarding the proposed amendments to section 379(d) of the Agricultural Adjustment Act of 1938, contained in section 104(b) of the Senate bill 1702:

Several basic understandings and agreements were reached regarding the fact that exemption from wheat marketing certificates should be limited to only high ash second clear flours not used for human consumption.

Is that correct?

Secretary FREEMAN. That is correct.

**STATEMENT OF EDWIN A. JAENKE, ASSOCIATE ADMINISTRATOR,
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE,
U.S. DEPARTMENT OF AGRICULTURE—Resumed**

Mr. JAENKE. Yes.

Senator HOLLAND. In addition to prevent a large increase in the amount of such flour in the domestic market, I understand that it is essential that the U.S. Department of Agriculture administer its export program in a way to insure the continued high level of exports of such flours. Is that, too, your understanding?

Secretary FREEMAN. That is my understanding.

Senator HOLLAND. Now, I understand that the other body who covered this matter has placed in the House bill, in an effort to deal with this matter, these words, and I quote: "excluding flour clears not used for human consumption as determined by the Secretary."

Is that correct?

Secretary FREEMAN. I think so, yes.

Senator HOLLAND. And I understand that all of the conferees have agreed that that wording would be inadequate and have, instead, agreed upon a somewhat different wording which, I understand, is in the following words:

(b) Section 379(d) is amended by inserting after the word "flour" the following: "(excluding second flour clears having an ash content of 1 per centum or more resulting from the production of patent flour (72 percent extraction rate type) not used for human consumption as determined by the Secretary)."

My question now—and I do not expect it to be answered at once, if you have not been able to follow this: Is this formula which I have just read the one that has been agreed upon between the corn people who are the ones that have contacted me and the wheat people with whom I have not been in contact and the experts of the Department of Agriculture on this question of industrial exemption or exemption of industrial wheat?

Secretary FREEMAN. I appreciate the Senator's consideration in saying that we should have a little time to check the precise language.

Generally speaking, this is my understanding: The discussions have been carried forward. The language you have read sounds pretty comparable to this, or that which I have read sounds pretty comparable to this, but I did not participate in all of these.

Senator HOLLAND. I would not expect you to, Mr. Secretary. The thing I am trying to do is clear up for the record the exact wording, if any, that has been agreed upon by the conference groups so that the committee will have the benefit of that wording by which this industrial use of wheat would be excluded so as to be on the same terms as the competing corn products. I am not sufficiently familiar with the wheat situation to speak for anybody else other than the cornstarch people who tell me that this is their understanding of the agreement reached.

Senator YOUNG of North Dakota. This is to me as well. I understood the National Corn Products Co. would agree to the House provision with some language in the report.

Senator HOLLAND. The purpose of my questioning is to bring out exactly what is the understanding of the Department of Agriculture, and I expect that understanding to be put in, whether it agrees with the information that has been given me or not. But I think that this committee would need, in this very technical field, the very direct guidance of the Department and its experts who, certainly, have been in long conferences with both of these groups as to whether any agreement has been reached on wording, and, if so, what that agreement is.

Senator YOUNG of North Dakota. I think it is important to bring out this information, Senator Holland, because we will need that in the markup.

The CHAIRMAN. May I say this: As we have in the past, it is our hope to have technicians available from the Department who are to discuss the various changes we are making, and if any bugs can be found, why, we would like to correct them before we present it on the Senate floor. We have done that in the past, as Senator Holland knows, and I hope to continue that practice if there is no objection from the committee.

Senator HOLLAND. I feel exactly that way. I wish to make my position clear. If we can solve this as much as possible—possibly all of this in advance, by having a formula in the record which has been agreed upon by the Department and by each of these groups, I think that everybody is equally interested in protecting each group against giving the other group an unfair economic advantage by reason of the law, that we will all have this problem much simplified when we mark up the bill. That is your purpose?

Mr. JAENKE. Yes.

Senator HOLLAND. Let me have this in the record—What is your name?

Mr. JAENKE. Mr. Edwin Jaenke.

The CHAIRMAN. Ed Jaenke.

Mr. JAENKE. This was our purpose in setting up a meeting in which these three groups participated. We have discussed this 4 or 5 hours.

Senator HOLLAND. You will be in the position, will you not, Mr. Jaenke, or through the Secretary, to furnish us with the formula which has been agreed upon, that is, if agreement is reached between these various groups?

Mr. JAENKE. Yes, sir.

Senator HOLLAND. I ask that be done for the record, and I think that it will greatly simplify our markup of the bill, if that can be done, Mr. Chairman.

The CHAIRMAN. Very well.

(The information follows:)

Meetings were held by interested parties with representatives of the Department of Agriculture as indicated by the chairman. It was generally agreed that legislative changes which the wheatstarch-gluten industry now had requested were for the purpose of enabling the industry to continue and if possible to regain the share of the market which had been lost to imported wheat products in recent years. It was also agreed by representatives of the producers of cornstarch and related products that they had no quarrel with the indicated objective of the wheatstarch-gluten industry, but they were concerned over the possibility that with the cost of the raw material lowered, wheat products might invade traditional cornstarch markets. It became evident that the parties would be satisfied if the traditional division of the industrial nonfood markets between corn and wheat products were maintained.

It was further agreed that if the certificate exemption were limited to high ash, second clears flour produced in a traditional type milling operation, and the exemption were further restricted to those products not used for human consumption the objectives of both the cornstarch and the wheatstarch-gluten industries could be attained. There was, however, a further condition which the corn industries felt was essential to fair treatment to both industries; i.e., that the Department of Agriculture give assurance that export programs will be administered so that second clears flour will not be shifted from export to domestic markets.

The limitation of the certificate exemption to high ash second clears flour can be carried out by amending section 379d(d) of the Agricultural Adjustment Act of 1938 by inserting after the word flour a parenthetical statement which would read "(excluding flour second clears not used for human consumption as determined by the Secretary)."

If the legislation is amended in this manner and the intention of the Congress that the traditional relationship between products from wheat and corn for industrial nonfood use should be maintained is made clear through committee reports or otherwise, the Department will interpret and administer the act by regulation to carry out this understanding.

The regulations would define second clears flour as a coproduct of patent flours in a 72-percent extraction rate type of milling operation and as initially issued would define second clears as a flour having an ash content of 1 percent or more. The Millers' National Federation has pointed out that ash content of flour varies from crop to crop and there may be times when a minimum below 1 percent ash might be needed. Any such variation from the 1-percent definition would be used sparingly by the Department, however, and only after interested parties have been heard, and if on the basis of evidence adduced it has been concluded that for the current wheat crop the ash content of wheat is less than normal. Such a temporary change in definition would be made only in order that the fraction of wheat which is normally classified as second clears may be so classified during the crop-year period. Under these circumstances any such temporary change in the regulations would be made only to maintain the traditional relationship between wheat and corn products for industrial nonfood uses.

In connection with the request on the part of corn product industries that the Department maintain exports of second clears at the level which has existed over the past several years it may be stated that the Department intends to take all reasonable steps to maintain and increase the exports of all grades of wheat flour including second clears. It could help maintain total exports of clears by its operations under Public Law 480 if exports of clears to cash markets should decline substantially. On the other hand, it should be recognized that an unexpected development in the international picture involving a change in our relations with some of the larger flour clears importers could make it difficult or impossible for us to maintain exports at the level which has existed in the recent past.

It was further made a condition of the agreement by the Millers' National Federation that the Department would vigorously resist any efforts to further restrict the industrial use exemption of flour and that corn processing groups will make no such efforts.

The Department in its efforts to effectuate an understanding between the parties cannot commit the Department to a position on possible future legislative proposals, but it states that it will support the intent of the legislation, should it be enacted, to preserve the traditional relationships which have existed between products from wheat and corn for industrial nonfood use. The corn

processing groups have informed the Department they are in accord with the Department's position if legislation is enacted establishing certificate values as recommended by the Department in the proposed bill.

Subject to the above comments it may be stated that all interested parties are either in favor of the accord which has been reached or have in the interest of harmony agreed not to oppose it.

Senator HOLLAND. I simply raised the question since it was brought to me by the cornstarch people. I thought it was best to bring it right out in the open, and let us find out if there has been agreement reached and have that agreement reduced to written formula and furnished to the committee so that we would have that information available.

Senator YOUNG of North Dakota. I may say that at first those interested wanted to prohibit the exception of any wheat used for non-food purposes in this manner. They proposed to allow no certificate exemptions on wheat for industrial uses. I think that we can resolve that problem.

Senator HOLLAND. We want to give equal consideration to both groups as well as to the consuming group. And, of course, to the specialists of the Department who have worked on this very technical matter. And it has been my hope that we could bring into the record here a formula which we may arrive at when we mark up the bill which will accomplish this desired result.

I have another question, Mr. Secretary.

What is the cost—for the record—of the special wheat program at about this time?

Secretary FREEMAN. The cost has been made up of export subsidy, the domestic commercial part of the program, and Public Law 480. The total cost of all three elements has been running in the neighborhood of \$1 billion a year. I have forgotten the precise figure.

Senator HOLLAND. Can you supply for the record, broken down into these three elements, the exact costs for the periods covered by this program?

Secretary FREEMAN. Yes, sir.

Senator YOUNG of North Dakota. If you will yield?

And the proposed costs under the new program.

Senator HOLLAND. I was going to get to that.

And, then, for the information of the committee, can you supply for the record the proposed cost of the new program which is recommended in the wheat title of the bill which you have submitted?

Secretary FREEMAN. Yes, sir.

Senator HOLLAND. That is S. 1702?

Secretary FREEMAN. Yes, sir.

Senator COOPER. Will you yield there, Senator Holland?

Senator HOLLAND. Yes.

Senator COOPER. Mr. Secretary, are you able at this time to furnish an estimate of the cost of this wheat program?

Secretary FREEMAN. By moving to the increased certificate, which is a part of the recommended program, there will be a savings of about \$150 million, and an increase of farm income of a commensurate amount.

Senator HOLLAND. For the wheat produced?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Can you give us a ceiling? What would it actually cost?

Secretary FREEMAN. The actual cost? May I give that in the record exactly, Mr. Chairman? I do not have it with me.

The CHAIRMAN. Yes, sir. That will be in response to Senator Holland's question.

(The information follows:)

Wheat: Major elements of program costs,¹ 1962-66 programs

[Millions of dollars]

Item	Program year				
	1962-63	1963-64	1964-65	1965-66	1966-67 (S. 1702)
Major elements of program cost: ¹					
Diversion payments.....	285	163	33	35	² 55
Price-support payments.....		79			
Inventory operations ³	228	⁴ 261	⁴ 217	⁴ 36	2
Export subsidy on commercial exports.....	100	192	38	52	7
Public Law 480 commodity costs.....	968	969	896	924	756
Total.....	1, 581	1, 142	750	975	820

¹ These major elements of cost for all activities during the 1966-67 marketing year—including carrying charges, acquisition costs, sales proceeds, export subsidies, and Public Law 480 costs relating to both the 1966 crop and crops from prior years—cannot be compared to fiscal year budgetary expenditures or realized losses. Cost items such as Public Law 480 ocean transportation, inland transportation on Public Law 480 shipments from private stocks, and wheat products purchased for domestic donation are not included in these estimates.

² Includes \$26 million payments under the conservation adjustment program.

³ Consists of acquisition costs, carrying charges, and net certificate operations less sales proceeds.

⁴ Denotes receipt.

The CHAIRMAN. Does anybody else desire to ask a question as to wheat?

Senator McGOVERN. Just one question on this matter that you just raised with the Secretary about the so-called bread tax argument.

We have had various letters from a lobby that calls itself the Wheat Users Committee. It is not composed of consumers but bakeries and a couple of bakery unions. It alleges that if we add 50 cents to the wheat certificate that it will result in a 2-cent-per-loaf increase in the price of a pound loaf of bread.

I remember very distinctly 2 years ago after the defeat of the wheat referendum when there was a prospect of wheat price falling 75 cents a bushel, the bakeries were asked by the reporters if that meant a drop in bread prices, and the bakery spokesmen's answer was "No." The bakers said that wheat was just a small percentage of the total cost of a loaf of bread; in any event, that even a 50- or 75-cent drop per bushel in the price of wheat would not amount to enough to have any bearing on the price of bread.

How does it follow, then, that if a 75-cent-a-bushel drop in the price of wheat does not affect the price of bread that a 50-cent increase in the price of wheat should justify a 2-cent-a-loaf increase in the price?

Secretary FREEMAN. That is a very perceptive question, Senator. I am pleased to respond to it. It happens when there is an increase in the cost of any agricultural commodity, it is rapidly passed on to the consumer. If there is a decrease in the cost of any agricultural commodity, why, it seldom reaches the consumer at all. This is just another example of this kind of heads I win and tails you lose philosophy which is on the Congress' back most of the time. I am not at all certain that any of this increase in the cost of the wheat in a loaf

of bread would or should be passed on the consumer. As a matter of fact, the increased profits of this industry in processing have been very great, and they have made profits and may very well be able to absorb these costs and the consumer carry none of them at all. Their recent profit statements would indicate that they are in excellent shape.

What I have said is simply that there would be this much increase in cost of wheat. Period. The same people said the same thing a year ago, when the certificate plan was initially proposed.

I will not burden this committee, but I have submitted—and if the chairman will permit, I would like to submit—for the record the predictions that were made by the then Wheat Users Committee and the predicted calamity that would befall their industry and the country if there was a wheat certificate program. Every one of these predictions has been disproved in fact, after 1 year's experience with the wheat program. We are merely hearing the same song, even louder, and it was muffled for only a little time when the facts proved it not to be true.

The CHAIRMAN. That will be received for the record.

(The letter to Members of Congress is as follows:)

OFFICE OF THE SECRETARY OF AGRICULTURE

WASHINGTON, July 1, 1965.

Note to correspondents.

The wheat certificate program closed out its first year of operation June 30, 1965. Secretary Freeman, in the following letter to Members of Congress, reports on the program and related activities.

To the Members of Congress:

The wheat certificate program completed its first year June 30, with these results:

Wheat farm income for the 1964 crop year will be about \$450 million higher than would otherwise have been possible;

Program costs to the taxpayer were over \$300 million lower than in the previous fiscal year;

Publicly owned wheat stocks stored at public expense will total 725 bushels, or some 150 million bushels fewer than at the end of the previous marketing year. Total wheat stocks currently are about 840 million bushels;

Profits to wheat users thus far in 1965, according to recent Standard & Poor's Surveys, are higher in nearly every case than for the same period in 1964;

Consumer prices for wheat products have remained stable. Bread prices in the past 12 months have averaged around 21 cents a loaf or less, virtually unchanged from the period before the certificate program went into effect;

Wheat exports in the 1965 fiscal year are the second largest in history. Only the 1964 fiscal year, which included substantial sales to the Soviet Union, was larger.

In every respect the predictions which the administration made last year in support of the wheat certificate program have been borne out.

The same, however, cannot be said for the predictions of wheat users and others who opposed this legislation when it was under consideration by the Congress last year.

Let me quote some of those statements as they were made then:

A key opponent of the bill on the Senate floor said, "Under this bill, what, in effect, is being said by the Government is: 'Add 1 cent per loaf, no matter how you do it.'"

The New York Times editorialized that "What all this means is higher costs for the consumer * * *"

Interstate Bakeries, whose per share earnings are currently running almost 65 percent higher than a year ago: "The consuming public * * * will be victims of inevitable price increases * * *"

Continental Baking Co. said this legislation "can mean nothing but an increase in the price of bread to the consumer."

The Northwestern Miller editorialized that "Wheat prices will rise. And so flour will cost more."

These are only a few of the calamitous statements heard a year ago in an effort to defeat a bill, and all of them have been proven false by the most effective test possible—a year of practical operating experience.

I quote them now because the same dire predictions are being heard once again, this time in regard to the proposals now before the Congress to extend the wheat certificate program.

We have stated repeatedly that the new legislation would provide the wheat farmer an additional seven-tenths of a cent for the wheat used in a loaf of bread by domestic bakers. It will be the first time in 15 years that the wheat farmer has had an increase in his share of the returns from a loaf of bread. Since 1949, the cost of wheat in a loaf of bread has been 2.7 cents or less even though the cost of that loaf has increased from 14 to 21 cents currently.

Yet, the wheat users have threatened that if the share of the farmer is increased seven-tenths of a cent, the price of bread will be increased 2 cents a loaf.

This statement must be viewed in the context of the experience of the past year. The results of practical experience have borne out the position of the administration, just as future experience will bear out the statements which the administration is making in support of the current proposal.

Sincerely yours,

ORVILLE L. FREEMAN.

Senator YOUNG of North Dakota. Could I interrupt?

I recently had a study made by the Library of Congress of the profits of the five biggest bakeries and the five biggest millers. I will use that information on the Senate floor, but with two or three exceptions, the profits for the five biggest bakers and the five biggest millers of this country were higher this last year than the year before.

The CHAIRMAN. Are there any further questions; that is, on wheat?

Senator MILLER. Mr. Secretary, going back to Senator Holland's question regarding this wheat starch problem, when you furnish the committee with the answers you have been requested to give, I wonder if you would include in those remarks these understandings—or if you do not have these understandings any changes thereto—that we have been talking about second flour wheat clears of 1 percent ash or more which is derived from patent flour production with the 72 percent extraction rate type process, and that the exports of such second flour clears are in the neighborhood of 500 million pounds, and that the intention of the Department is to so administer its export program that this export amount will be maintained.

Also, that in connection with the agreement which Senator Holland referred to, that the wheat starch-gluten industry has indicated that it is satisfactory to them, that the Department understands the interpretation to be satisfactory to the hard and soft plywood industry and that the Department understands that the Millers National Federation and the wheatgrowers do not oppose it. Would you supply that for us?

Secretary FREEMAN. Yes, sir.

(The information follows:)

It is the understanding of the Department that representatives of all interested parties including the Millers' National Federation, the wet corn millers, the wheatgrowers, the wheat-starch-gluten industry, and the plywood industries have agreed either to support or not to oppose the accord which has been reached in meeting held at the Department of Agriculture at the request of the corn and wheat products industries. The details of the accord are set forth earlier in the record in response to a request by Senator Holland.

Senator MILLER. I have a brief question on this program. If we adopt this proposal for \$1.25 wheat certificates and thus derive 100 percent of parity price for our wheat farmers, do you envision any difficulties in the Kennedy-Round negotiations with other countries when we come out with, in fact, a two-price system of that magnitude?

Secretary FREEMAN. No; I think our position will be strengthened and improved much more so than under the previous system which represented a very heavy export subsidy. We are in a much better position in our international discussions on trade when we move our commodities in world markets at world prices, and we can legitimately make reports that we see fit to do for our own domestic consumers, which is our own business, so long as we do not heavily subsidize and then, in effect, dump our production around the world.

Senator MILLER. Do you not think that some of them will see through that and say that it is a subsidy for exports and something else for the domestic?

Secretary FREEMAN. The point will be made, to be sure, as it has—it will be made in any effort to move agriculture commodities at world prices, but we are in a much stronger position with this system than we were with the heavy export subsidy.

Senator TALMADGE. Will you yield at that point?

Senator MILLER. Yes.

Senator TALMADGE. Is it not true that the Common Market countries themselves have a two-priced system in wheat?

Secretary FREEMAN. That is correct, yes, sir; in the real sense of the word it is not an export subsidy at all. It is a part of the overall domestic commodity price.

Senator MILLER. I understand very clearly that the Common Market countries have this, and this is one of the problems we have with them, and if we tried to get them to stop their tariffs against us, I just wonder whether we might not run into the retort that we are not in very good grace, that we are doing the same thing that they are doing except, perhaps, even worse.

Secretary FREEMAN. Not with the Common Market countries.

Of course, they are having, in effect, highly protectionist restrictions which make the rest of the world residual suppliers. There may be discussions with other exporting countries, particularly Canada, Australia, and Argentina. They would like to expand their markets. By the same token they have their own "subsidies" of various kinds. So I would only say that, in a very confused picture here in connection with who is doing what, we are in a much stronger position in all commodities by moving them at a world price where we use the market, and then to the extent that it is a matter of policy we seek to supplement our own producers' income; which is our business.

Senator MILLER. Have you discussed this with Mr. Herter, or any of our negotiators?

Secretary FREEMAN. Yes.

Senator MILLER. And that is their reaction?

Secretary FREEMAN. Yes, it is.

Senator MILLER. If the Congress happens to reject the administration's proposal for an increase in price of wheat certificates from 75 cents to \$1.25, what would then be your recommendation? Do you have an alternative?

Secretary FREEMAN. No; we would have a referendum. We go back to the so-called compulsory program.

Senator MILLER. Under the present law, would you have any recommendation. Suppose that you were told that this could not be done, do you have an alternative proposal?

Secretary FREEMAN. There is an alternative proposal in the law. In the absence of this, we would go back to the basic law which was reported to the Congress by this committee and if not approved in a referendum would constitute 50 percent support level on wheat with no kind of certificate program.

Senator MILLER. Would you take that as the alternative?

Secretary FREEMAN. I know of no other alternative?

Senator MILLER. I mean, a legislative alternative?

Secretary FREEMAN. I have not heard of any.

The CHAIRMAN. We proposed one a while ago, domestic certificates from 500 million to 700 million.

I presume that you would rather have that than to resort to the old law, would you not?

Secretary FREEMAN. Well, the chairman has me——

The CHAIRMAN. Well, it is a question of choice; it is a question of choice. It may be that we cannot put through the program that you are advocating. If we cannot, what is the next best thing to do? I think that we ought to at least get some expression from you. If you do not want to do it now, maybe later. [Laughter.]

Secretary FREEMAN. I am very hopeful that the committee in its wisdom will enact without too great modifications the current program.

Senator HOLLAND. Will you yield a moment?

The CHAIRMAN. There is one question I would like to clarify about this world price business that I have heard often. I am just wondering if the offerings are made at world prices? I know that it is not in respect to cotton, because what we have done is to announce what the price would be in the early part of the year, and then let everybody know how much cotton is going to sell for, and the people who are our competitors simply sell the cotton below this fixed price. I am wondering if we can write into this act something that will assist you in selling all of these commodities at truly world prices without letting our competitors know in advance what that price will be.

I think that is important.

Secretary FREEMAN. Well, the Senator is directing attention to a very important question that affects a number of commodities in which we are the dominant world supplier, and the very, very difficult question of how we handle our pricing policies.

On wheat, we have followed quite an aggressive policy and have decreased the prices to be fully competitive, and this has been very helpful in firming up our commercial exports.

I do not think it is practicable to try and write into law—at least I know of no formula which would make it possible for us to operate in the export market rigidly without any kind of flexibility to adjust to a rapidly changing market condition.

The CHAIRMAN. But what I am complaining of, Mr. Secretary, is your announcement in advance that the price of the commodity, say, like cotton, will be so much, and you will let that be known the world

over in advance, and all of our competitors simply beat us by a quarter of cent, and we lose the market. It appears to me that ought not to prevail.

Secretary FREEMAN. At first blush that sounds like we are following a questionable practice, but when you look into this market, you will find that there are some other practices that have to be considered. For example, in the absence of any kind of a firm price on either wheat and, particularly, on cotton, you then get into a situation where no one is carrying any inventory, either around the world or in the United States. They would carry a minimum inventory. The Government carries all of the inventory, because everyone who normally would carry an inventory is waiting for that price to change—he is waiting for the quantities to pile up. At that point he knows the price will break, and then he is waiting until it does, and then he is going to move in and buy. This results in a kind of a cyclical up and down of the market in relation to buying and selling which, in my judgment, is not practical. It sounds good to say, of course, “Let us vary the price from day to day and get more markets”; but as a practical market proposition, it does not work that way. It may work that way in the private markets, but it does not work that way very well, when the Government is the pricemaker.

Senator YOUNG of North Dakota. Would you mind an interruption?

The CHAIRMAN. No.

Senator YOUNG of North Dakota. You do change the export subsidies from day to day?

Secretary FREEMAN. We do change it, announce the export subsidy on wheat, from day to day. But we do, also, have a general orientation based upon a long history in the wheat market and a knowledge of what our real competitors are going to do, where the price is a pretty stable one and is known.

I think, Mr. Chairman, that in all of these, what we really need to do is to be very vigorous in avoiding letting the United States become just purely a residual supplier with its share of the market progressively going down. This means that we have got to price ourselves in the world market in a position where we are going to be able to sell at world prices, and where it will not be so easily possible for every other country to produce more and more of the commodity in question.

Senator TALMADGE. Will you yield at that point?

Secretary FREEMAN. Yes, sir.

Senator TALMADGE. As I understand what you are trying to say, in plain English, it is that in order to have a very vigorous export policy, you must get the inventory of the commodity in private hands; is that correct?

Secretary FREEMAN. That is correct.

Senator TALMADGE. And then the marketplace will operate from day to day on the basis of a competitive bid and supply, and so forth?

Secretary FREEMAN. That is correct.

Senator HOLLAND. Will you yield to me a moment?

Senator MILLER. Yes.

Senator HOLLAND. On the matter of the support program, those of us who were active in handling the agricultural appropriations bill which has now been passed by both Houses were very much pleased to see that the amount estimated for the cost of that program for the

coming year was only about one-third of what it would have been heretofore. Is that tied in, in any way, to the enactment of this new law, or is that the result of what has happened already by way of the reduction of what we have had in the way of wheat that is to be exported as compared with the world price?

Secretary FREEMAN. It is a result of the current law which we seek to extend now, which moves wheat into export markets at closer to world prices with a much lower export subsidy.

Senator HOLLAND. In other words, it is the result of what has happened heretofore?

Secretary FREEMAN. Yes.

Senator HOLLAND. And you are trying to extend——

Secretary FREEMAN. By continuing——

Senator HOLLAND. By continuing that?

Secretary FREEMAN. Yes.

Senator HOLLAND. If you do not continue this, and the 50-percent price support went into it, of course, you might have to spend even less in the International Wheat Agreement subsidy than the amount you have got in the appropriations bill, might you not?

Secretary FREEMAN. I think that you would be in the same position, because you would have a 50-percent loan which might be higher than the world price; to the extent it was, you might have a slightly increased cost in the export subsidy.

Senator HOLLAND. Then, the fact of the matter is that this is a very large decrease in the cost of the International Wheat Agreement which we have just ratified for an additional year?

Secretary FREEMAN. Yes.

Senator HOLLAND. That has been the fact, that the wheat that is used for export is supported either not at all or at much lower rate than the wheat that is used domestically?

Secretary FREEMAN. That is correct.

Senator HOLLAND. Thank you.

Senator MILLER. Yes, indeed.

Mr. Secretary, what I was getting at on these alternatives, if we did not enact this \$1.25 certificate and left it as it is now at 75 cents, would this be preferable to going back to the old law? That is what I had in mind.

Secretary FREEMAN. Yes, sir; so far as I am concerned. Why, to go back to the old law would mean a loss of \$450 million of wheat-farmer income. The enactment of the new proposal would mean an increase of \$150 million of wheatgrower income, and what we have now would be better than what we would go back to, but not as good as what we hoped to get.

The CHAIRMAN. That is, the farmers do not vote for the program?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. If they do vote for the program——

Secretary FREEMAN. Then, you would have the program in terms of costs roughly comparable to what we have now.

Senator YOUNG of North Dakota. Will you yield a minute?

Senator MILLER. Yes.

Senator YOUNG of North Dakota. Going back to the old program, that is, the compulsory wheat certificate program would provide a higher income, would it not?

Secretary FREEMAN. Yes. It would provide a higher income and a higher cost.

Senator YOUNG of North Dakota. At a higher cost?

Secretary FREEMAN. Yes.

Senator MILLER. That is what I had in mind.

Mr. Chairman, I have this quotation that was referred to earlier. It is on page 89 of the Budget brief history of June 1966, and the statement reads as follows:

But in view of the market outlook for farm commodities at home and abroad, farming alone cannot be expected to provide a decent living in the future for more than about 1 million farm families, even with continued Government assistance.

I would ask that that be placed in the record at this point.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The excerpt from the budget, 1966, is as follows:)

AGRICULTURE AND AGRICULTURAL RESOURCES

One result of the great strides made in increasing the efficiency of American agriculture has been a progressive reduction in the number of people needed in farming. Today, much more capital, less cropland, and much less labor is required to produce a given output of farm commodities than even a decade ago.

The Nation as a whole has benefited greatly from the shift of the manpower no longer needed in agriculture to nonagricultural employment. But the shift of manpower has not kept up with the growth of farm productivity. The difficulty of making the transition to new occupations is reflected in the large number of low-income families in rural areas today.

With the help of the Federal Government's farm commodity programs, some of the larger and more efficient farmers are now receiving rates of return for their labor, capital, and management nearly comparable with the rates received in other parts of the economy. But in view of the market outlook for farm commodities at home and abroad, farming alone cannot be expected to provide a decent living in the future for more than about 1 million farm families, even with continued Government assistance. Many low-income farm families will have to find other ways of earning a living, or other sources of income to supplement their modest farm earnings, if they are to share more fully in our national prosperity. Recognition of this situation underlies the increased emphasis in this budget on providing better economic opportunities not only for low-income farm families but for all low-income people who live in rural areas.

Senator COOPER. Referring to the colloquy we had before, did you have occasion to read the testimony of the man who appeared here as a witness, I think he was president of the Minneapolis Exchange——

Secretary FREEMAN. Mr. McNeal?

Senator COOPER. I do not remember his name. I think he made the argument that if the disposal price of wheat was raised, that is, that held by the Commodity Credit Corporation, the effect would be that private industry would increase its inventory and would take the grain that the Commodity Credit Corporation would have, and would be able to be more competitive in the world market and could do it much better than you are all doing it.

Secretary FREEMAN. This is a point that was made, and it runs to the question of the resale, Senator Cooper. And I think it is our best judgment that the range now between the loan rate and the market price is more than adequate to get the private trade to carry as much grain as they would carry, even if that amount were increased. This is a matter of judgment, and no one can be precisely sure. However, to do this would have some very real hazard; it would run the danger

of destroying the program by discouraging compliance in it. It would run up our Government costs; it would run up consumer costs, and it would handcuff us in our efforts to try and move our surpluses into use.

I think that the 105 percent with the carrying charge added in, which gets to be about a 20-cent difference, is adequate and that it has been administered in such a way that we have for the first time in 15 years maintained the market price for the last 2 or 3 years above the loan rate; before, it was always below the loan rate. I, very frankly, think that some people sincerely believed it would help. There are other people who advocate otherwise, because they think it would destroy the wheat program and the feed grain program both. So, I think I would not be presumptuous to state before this committee, as I did the last time I testified, "Why change success?" This has been working adequately. I would see no reason, therefore, for changing it.

Senator COOPER. That was the very argument raised on this point.

Senator HOLLAND. I would like to introduce the exact figures that I referred to before, as to the International Wheat Agreement. In 1965, it was \$81,838,000 now appearing in both your appropriations bill; in other words, now in conference, \$27,544,000, or a reduction of almost two-thirds.

The CHAIRMAN. Are there any further questions?

Senator JORDAN of North Carolina. Mr. Secretary, on the pricing of cotton that has been discussed here——

The CHAIRMAN. We are going to take up cotton after a while.

Senator JORDAN of North Carolina. All right. I will wait.

The CHAIRMAN. We are just now considering wheat.

CCC RESALE PRICE

Senator YOUNG of North Dakota. As you know, in the spring wheat area there is a lot of sentiment for increasing the CCC resale value of not only wheat but of corn and other commodities, too, making it higher than 105 percent plus the carrying charges. This is supported by the Farm Bureau, the Farmers Union, and others. At the present time, you have an order in effect that prohibits the sale of any wheat, that is, Government-held wheat, at any price; is this correct?

Secretary FREEMAN. Yes.

Senator YOUNG of North Dakota. Would it not be preferable to have, in place of this, a resale value of 110 percent plus the carrying charges?

Secretary FREEMAN. No.

Senator YOUNG of North Dakota. Why not?

Secretary FREEMAN. For the reasons that I have tried to give. If we are going to unduly disrupt the market, or if the supply-and-demand situation at a particular time and place is such that it is not in the best interests of all concerned, why, we just do not sell. There is nothing that says that we have to sell, and we do not sell in many instances when we think that it is going to serve the best interests of all concerned.

On the other hand, to be so handicapped that we cannot sell until the price rises up to a given level, which can very well have some very bad consequences, we protest and think that there is no reason for handcuffing our operation to this extent.

Senator YOUNG of North Dakota. One of the problems with an order like you have now is that the trade does not know but what you may change this in a week or two so that they stay off the market and do not buy wheat which otherwise would be bought if you had, say, 110 percent in effect for 2 months or 6 months or a year, or permanently, then they would not be looking forward to a lower price at some time in the future.

Secretary FREEMAN. Then, they would say let us make it 115, that 110 is not high enough. Then, they say let us make it 125. What the trade wants to do is to speculate, and speculating does not help the farmer very much, as you very well know.

Senator YOUNG of North Dakota. There are times though when it would mean a higher cash price and a freer market operation. It would not go to 125 percent. I think, however, some difference is necessary—105 percent is not a magic figure; maybe 110, or something like this.

Secretary FREEMAN. I will say again, if I may—and I do not want to sound in any way presumptuous or in any way cocky about it—it has worked very successfully. The market price has been for the first time in 15 years, in the last 2 years, above the loan rate. There is a very significant spread now between the market price and the loan rate, and it is working well, and I would urge this committee to think very carefully, before you disrupt what has been a very successful experience, because from this could very well flow some detailed consequences affecting the relationship between the wheat and feed grains in terms of discouraging compliance with the program by significant numbers of farmers that would handicap it therefore, it would increase the cost and hamper its workability. I think this is a rather grave and fundamental question, and I see no really good reason for taking any chances, because it is working quite satisfactorily now, and I think the record bears that out.

The CHAIRMAN. In connection with these sales to the Commodity Credit Corporation, that 105 percent plus carrying charges, I learned, and many others learned during the hearings, that the carrying charges are made only for 1 year.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And not for the entire time. I would like to get the authority for that and when it was started, because as I understood, 105 percent of the support price plus the carrying charges, meant that we charged 2 or 3 or 4 years of carrying charges, particularly in respect to many of the commodities that you have had that long.

Secretary FREEMAN. Mr. Chairman, I shall respond to that appropriate inquiry, that the determination of the sales policy was set down under section 407 of the Agricultural Act of 1949. There were different languages that came out of both the House and the Senate, but it was resolved in conference. That language has been interpreted since that date by the Department, and it has always been on the basis of carrying charges for 1 year, based on the legislative history and the practicality that otherwise we would run the resale price up so high that we would never be able to move anything into use, and our costs to the Government would have gone much higher as well.

The CHAIRMAN. Well, I would like to have in the record at this point your authority as you just indicated it.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And how long that practice has been going on, the interpretation that has been made, and so forth, so that this committee will be thoroughly informed as to that.

Secretary FREEMAN. Yes, sir.

(For information requested above, see p. 1074.)

The CHAIRMAN. Are there any questions?

Any questions, Senator Mondale?

Senator MONDALE. I have no questions.

Senator MILLER. May I, Mr. Chairman?

So long as this point has come up, may I raise the same point on the disposal by the Commodity Credit Corporation of the feed grain—I think you referred to that.

Would you let me bring this in at this time, so long as we have raised the Commodity Credit Corporation disposal question? I would be happy to do so, now.

The CHAIRMAN. We have all of that—we will have all of that in a minute, when we reach that topic.

Senator MILLER. I do not want to duplicate. I thought that as long as we had brought it up, I might go ahead.

The CHAIRMAN. We will reach that topic in a few minutes.

Senator MILLER. All right.

The CHAIRMAN. All right.

There is one more question, Mr. Secretary, that I would like to ask you. There has been a charge, also, made, and I wish you would answer it: If the price of wheat is increased to 100 percent of parity those who prefer wheat cereals may turn to substitutes and thereby decrease the consumption of wheat. Have you any comment?

Secretary FREEMAN. We have carefully reviewed this, and do not think it would take place. The amount of wheat used in these cereals is very, very small. The amount of increase that is involved in this price certificate is very minor. We see very little by way of substitution involved at all.

The CHAIRMAN. Very well. All right.

FEED GRAINS

I have a few questions now on feed grains.

The feed grain program is given a great deal of credit for reducing stocks, but the cost has been high, as I indicated in the record. Do you anticipate that the cost would be less under your recommendations; and, if so, how do you expect to achieve this?

Secretary FREEMAN. Yes, Mr. Chairman. We think that the costs would be less for two reasons: First, we are approaching the place where we have only necessary reserves of feed grains remaining, which will mean that we will not have to divert as many acres as we have had to in the past when we have tried to bring down our surpluses.

Secondly, with more flexibility in the application of price-support payments and diversion payments, we will be able to operate the program more efficiently; we will be able to get compliance at a lower cost, and we will be able to decrease the costs of the program thereby.

The CHAIRMAN. In other words, your supplies are just about in keeping with your requirements?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. If that is true, why should we pay diversion payments at all?

Secretary FREEMAN. Well, what I am really saying is that we may not need to have as many as 35 million acres of land diverted from feed grains. We can, perhaps, get by—let me by hypothetical for a moment—with 20 million acres. It will cost us less to get 20 million acres out than to get 32 million acres out. We have to consider in this, of course, the constant fact of the expanding productivity.

To the extent that productivity goes up, the amount of acres that we have to retire tends to go up, too. But, obviously, we are not going to take as many acres out, once we get down to where we will not have to be concerned with a drop in the surplus anymore.

The CHAIRMAN. As I recall, the losses sustained, that is, the cost of the program for 1964 was in the neighborhood of around \$1.200 million, and that anticipated losses for the current year were \$1.3 billion.

Secretary FREEMAN. That sounds like the total expenditure figure, Mr. Chairman.

The CHAIRMAN. And what do you anticipate it to be in 1966—I mean, under this new program?

Secretary FREEMAN. Well, very frankly, this will depend upon some factors that we do not know yet.

The CHAIRMAN. You say it will, under this new program?

Secretary FREEMAN. Let me say that I think based on very preliminary estimates of the situation and circumstances 1 year from now we can accomplish the necessary compliance, and by administering the program with more flexibility save in the neighborhood of \$100 million.

The CHAIRMAN. \$100 million. CCC expenditures will probably be \$1,200 million for fiscal 1967.

Secretary FREEMAN. Then, we will have to take a look at what happens in the crop this year to determine how many acres we will need to retire next year in order to have some kind of working balance, and that, Mr. Chairman, we just frankly do not know.

The CHAIRMAN. Does the feed grain program hold a price umbrella over the noncooperating feed grain farmer as a result of the loans available to the cooperating farmer?

Secretary FREEMAN. Yes; it does in a sense, because the market price is going to be related to the loan rate, and the noncomplier, of course, therefore, gets some of the advantages from the loan rate, even though he does not comply. It has been our policy—and it is one, as I recall, that the chairman has urged before—to have a spread between the loan rate and the support rate so that the noncomplier will not be able to benefit from the cooperation of the complier.

The CHAIRMAN. I have been arguing for that for some time.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And it would seem to me that the loan rate could be reduced and the direct payments in kind could be increased, so that the compliers would receive about what you are paying now, something along that line.

Secretary FREEMAN. That advice, Mr. Chairman, is very sound.

The CHAIRMAN. What action should Congress take to see that all of the benefits of the programs do not go to those who are unwilling to keep supplies in line with demand?

You have answered the question just now by saying that if we make it possible to decrease the support price but increased the direct payments in kind, that we may accomplish that end by doing that.

Secretary FREEMAN. That is right.

The CHAIRMAN. All right.

Are there any further questions as to feed grains?

Senator Holland?

Senator HOLLAND. None, Mr. Chairman.

The CHAIRMAN. Senator Young?

Senator YOUNG of North Dakota. I will pass now.

The CHAIRMAN. Senator Cooper?

Senator COOPER. I have a question about soybeans——

Senator HOLLAND. If you will pardon me for interrupting, I have one question. If you have not shown in the record already, can you show in the record the cost of the feed grain program for each year that it has been applicable?

Secretary FREEMAN. Yes sir; we can do that.

(The information follows:)

Cost of 1961-64 feed grain programs

[In millions of dollars]

Item	Crop of—			
	1961	1962	1963	1964
Realized loss and CCC costs ¹	1, 697. 5	1, 149. 7	1, 395. 2	1, 510

¹ Fiscal year most closely comparable to crop year listed; e.g., fiscal 1965 year costs relate most closely to 1964 crop year. Includes loss on sales, donations, carrying charges, commodity export payments, gross costs of Public Law 480 programs and other related costs. Also includes price support and land diversion payments. Public Law 480 costs do not include (a) dollar proceeds from sales of foreign currencies under title I and (b) dollar repayments under long-term credit and supply contracts (title IV). Interest and administrative costs are excluded.

Senator YOUNG of North Dakota. Mr. Chairman, I have some questions. During the course of our hearings, I think this question was asked. I have a table here showing the cost of all of the farm programs for the various commodities dating back from October 17, 1933, to October 30, 1964, which I would like to have placed in the record.

The CHAIRMAN. Does it give that as to each commodity?

Senator YOUNG of North Dakota. Yes, sir.

Secretary FREEMAN. Might I add to that just a comment, that if my figure is correct, that would show the cost of all farm programs, financed by the Commodity Credit Corporation, since its inception, averaged nearly \$1.5 billion a year, including costs of Public Law 480 and other special programs.

The CHAIRMAN. That is already in the record, is it not?

Senator YOUNG of North Dakota. It is already in the record?

The CHAIRMAN. Yes, sir.

Let us go off the record.

(Discussion was had outside the record.)

Secretary FREEMAN. The total CCC-realized loss on commodity operations for price support and related programs only from 1933 to April 30, 1965, was \$15,534 million.

The CHAIRMAN. You are wrong.

Senator YOUNG of North Dakota. What do you have for the other commodities?

The CHAIRMAN. You mean wheat?

Secretary FREEMAN. No; this was all of them. Wheat was about \$3 billion since 1933.

Senator YOUNG of North Dakota. What was the cost for corn and feed grains?

The CHAIRMAN. You have the wheat agreement in that—you have Public Law 480, all of that, to add to that. Those are costs.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. I do know that it is over \$40 billion. We are not going to get into any argument over that, because it is in the record.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. I have placed that information in the record many times and stated on the Senate floor that the entire cost of all of the programs, that is, price supports, loss on sales abroad, over a period—ever since inception, 1933, from then on, the administrative costs and everything else, the entire cost is \$41,761,391,512, from your own records.

Secretary FREEMAN. I stand corrected.

Senator YOUNG of North Dakota. May I ask, does this include the sugar program which is self-financing?

The CHAIRMAN. I do not know. This is only on these.

Senator HOLLAND. There has not been any loss from that program. They have paid back money on it.

Senator YOUNG of North Dakota. But it is self-financed; it is financed by a tax rather than by an appropriation.

The CHAIRMAN. That is right. It is financed by appropriations, of course.

Senator YOUNG of North Dakota. But out of revenue derived from the excise tax on it.

Senator HOLLAND. And the processing tax which has been more than adequate to pay the cost for every year, so that some of it had to be paid back to the Government each year.

The CHAIRMAN. I do not want to make an issue of this at all, so as to put one commodity against another, but I think I showed in the record that this cost that we are speaking of today is in excess of \$40 billion. And you hear a lot of commentators and newspapers criticize that, but when we converted from war to peace, industry got over \$45 billion, but you never heard a chirp from the newspapers and commentators about that. So, we are not going to argue that point now.

Senator YOUNG of North Dakota. Mr. Chairman, that \$41 billion figure is very unfair to wheat, because this includes wheat for famine relief and many other uses.

The CHAIRMAN. Surely. I said the whole cost.

Senator YOUNG of North Dakota. And famine relief is not really a cost of the price-support operation.

The CHAIRMAN. If you did not have the wheat, though, you would not have given it away. Those are the facts. We have had surpluses; we have had to find some way to get rid of them. Whether you give them away by way of a famine relief program or by way of Public Law 480, or you give it to the poor people here, it is a chargeable cost, due to the fact that we produced more than we could dispose of.

Senator YOUNG of North Dakota. If you will yield, Mr. Chairman.

The CHAIRMAN. Yes, sir.

Senator YOUNG of North Dakota. If we had no price-support program at all, and we had some surplus wheat, this country probably would have given it to these countries as famine relief.

The CHAIRMAN. Yes, sir.

Senator HOLLAND. I agree with the Senator from North Dakota, that a great deal of that which has been charged here to agriculture is in the nature of carrying out foreign policy, welfare, and social programs, educational programs, or some other program of the Government.

The CHAIRMAN. I am not questioning that at all. All I am saying is that it came out of Uncle Sam's pocket, and the taxpayers put that money into Uncle Sam's pocket. That is the only point I want to make.

I do know that many of these programs should have been charged to foreign aid, to relief abroad, to social welfare, the poverty program—all of that; however, it was charged to the Department of Agriculture, and the newspapers and the magazines and the commentators, why, they go through town writing articles about it and criticizing it, but they have been fairly good in the last few months, so that we will not talk about that any more. They might be seeing the light.

[Laughter.]

The CHAIRMAN. Any questions, Senator Cooper?

SOYBEANS

Senator COOPER. I notice you said in your statement that the July crop report indicates the likelihood of a record crop of soybeans. Under your proposed program, the farmer could plant diverted feed grain acres to soybeans, could he not?

Secretary FREEMAN. Yes.

Senator COOPER. What was the rationale for including that provision?

Secretary FREEMAN. If, in future years we would be faced with a shortage of soybeans, we could save money and get enough soybeans by permitting the Secretary in his discretion to permit the planting of soybeans on diverted feed grain acres, whereupon the farmer would get no pay for that, because he would be planting the soybeans instead of taking the payment. That is discretionary, and with that kind of increased acreage we have this year it is a discretion that I would not use. We have been down to where it is kind of scraping the barrel, which means that the price has been up where it gets closer to the level where it might encourage substitution. And urea gets into this as well. It is just discretionary authority to try to keep soybeans in balance.

The CHAIRMAN. Are there any further questions on this?

CCC RESALE PRICE

Senator MILLER. Mr. Secretary, I would like to get back to this disposal of stocks by the Commodity Credit Corporation.

I understand the policy based on that law provides that the Commodity Credit Corporation shall not dispose of stocks for less than 105 percent of the support price plus reasonable carrying charges.

As I understand it, these are 1½ cents per month, except no charges are determined for August and September, and the 1½ cents starts all over again in October.

Does this mean that if the Commodity Credit Corporation sells stocks at the end of October, it will sell at 105 percent of the support price plus only 1½ cents per bushel, representing the storage costs for September and completely forever forgiving the storage costs for the previous months?

Secretary FREEMAN. Yes, sir; it means that the requirement is that we shall sell—we can start over again, and you will add to the 105 percent, 1½ cents for each month for 9 months. The monthly carrying charge is added at the beginning of the second month of the marketing year.

Senator MILLER. As I understand it, the support price is deemed to be \$1.25 for corn, which includes \$1.10 plus the 15-cent payment.

Secretary FREEMAN. It is \$1.05 plus 20 cents payment for the 1965 program.

Senator MILLER. All right; \$1.05 plus the 20 cents, so that we end up with \$1.25.

Secretary FREEMAN. That is correct.

Senator MILLER. As the support price?

Secretary FREEMAN. As the support price. The loan rate is \$1.05.

Senator MILLER. Or the loan rate, either one.

The CHAIRMAN. The loan rate.

Senator MILLER. If that is so, if the Commodity Credit Corporation sells corn, let us say, at the end of October, then the sale price would be \$1.25, plus only 1½ cents, constituting the reasonable carrying charge; is that correct, so that the sales price would be \$1.26½?

Secretary FREEMAN. Let me get everything before us here. Under the Feed Grain Act, where there are certificates, CCC is not subject to the 105-percent limitation, and may sell at the loan rate or above if the Corporation decides to do so. It has been our policy in most cases to follow the 105-percent rule with the add-on of carrying charges, but, as I say, we may, to the extent that there are certificates which we have redeemed from the producers, sell the grain represented by those certificates at the loan rate plus carrying charges.

Senator MILLER. When you are talking about certificates, you are talking about wheat?

Secretary FREEMAN. I am talking about feed grains.

Senator MILLER. You are talking about corn?

Secretary FREEMAN. Yes. What happens on corn is that the producers get a certificate for payments which most of them then redeem for cash. The certificate represents a certain amount of corn which is held by the Commodity Credit Corporation. To get back the cash paid the producer, CCC may sell feed grains representing certificates

redeemed at less than 105 percent, although we have not done so as normal policy. Instead, we have generally followed the normal 105 percent plus the monthly carrying charges rule.

Senator MILLER. Have you done so to any standard rate?

Secretary FREEMAN. Yes, we have sold at about 105 percent, or more, plus, of course, the appropriate carrying charges.

Senator MILLER. Well, now, if you followed 105 percent plus the $1\frac{1}{2}$ percent per month carrying charge, then following my example, you would sell corn at the end of October for \$1.26 $\frac{1}{2}$?

Secretary FREEMAN. No, we would base it on the loan; not the support price. It is 105 percent of the loan, plus the carrying charges.

Senator MILLER. All right, then——

Secretary FREEMAN. The loan rate under the current year is \$1.10. Sales now being made are based on the 1964 loan rate. You were right in the initial figure, \$1.10 and 5 percent of \$1.10 is $5\frac{1}{2}$ cents. Then you would add onto that $5\frac{1}{2}$ cents, $1\frac{1}{2}$ cents for each month, which would get to be $13\frac{1}{2}$ cents. When you total all of these you have about 19 cents more than the loan rate in September.

Senator MILLER. At the end of October, because you start all over again with this $1\frac{1}{2}$ cents per month. You have 105 percent of the \$1.25?

Secretary FREEMAN. No. The sales price is based on the loan rate. For the current year it is based on \$1.10 a bushel for corn.

Senator MILLER. Then, I started out by asking what you measured that 105 percent against.

Secretary FREEMAN. The loan rate.

Senator MILLER. I understood you to say that it would be the loan rate, plus the payment of 20 cents.

Secretary FREEMAN. No; the price-support payment does not enter into the formula for setting the CCC sales price.

Senator MILLER. To get the record straight now——

Secretary FREEMAN. It is the loan rate only.

Senator MILLER. You start out with \$1.05 then?

Senator JORDAN of North Carolina. \$1.10.

Secretary FREEMAN. \$1.10 for corn sold during the current year. The law authorizes sales for the redemption of certificates at the loan rate of \$1.10. However, we have been selling above the legal minimum, at 105 percent of the loan, plus carrying charges.

Senator MILLER. All right.

Secretary FREEMAN. We have been selling at $5\frac{1}{2}$ cents above the loan, plus charges.

Senator MILLER. That is \$1.15.

Secretary FREEMAN. That is about right.

Senator MILLER. If that corn is sold at the end of October, we would add to that reasonable carrying charges of $1\frac{1}{2}$ cents?

Secretary FREEMAN. Let's say the 1st of November. Carrying charges are added on beginning in November for corn.

Senator MILLER. So that we would sell it for \$1.17, but if we sold that corn in August, the following year, we would add not $1\frac{1}{2}$ cents but 15 cents?

Secretary FREEMAN. Carrying charges are added for 9 months, so the total would be $13\frac{1}{2}$ cents.

Senator MILLER. This gives quite a spread?

Secretary FREEMAN. Correct.

Senator MILLER. Depending on what month it is sold?

Secretary FREEMAN. That is right.

Senator MILLER. I am wondering if it would not be better to have a fixed standard, say, of 110 or 115 percent of the basic price and to forget these reasonable carrying charges, because these fluctuate all the way from 11½ cents to 13½ cents during the course of the year.

Would not that provide stability in the market if we did that?

Secretary FREEMAN. I think it would be no more stable than what we have now. It could be less stable under certain conditions. The reasonable carrying charge is announced under the present system and everyone know what it is. Everyone also know what the loan rate is and what 105 percent of that is. I do not see that stability would be improved at all. What you are suggesting is that we average out the range for the whole period and apply that for every month in the period. I think——

Senator MILLER. No; may I comment at that point? What I am getting is this:

Suppose that we establish that the Commodity Credit Corporation could not sell these stocks for less than 120 percent of the loan. Period. Nothing in there about adding reasonable carrying charges. If we used the \$1.10 as the base against which to apply the 120 percent, we would end up with \$1.32. Now, in the present state of the law, you can sell corn during the course of the year ranging all the way from \$1.17 to \$1.29, as I figure it, because of this fluctuation and the addition each month of 1½ cents. If you sell at the end of October, you sell for \$1.17. If you sell it in July, you would have to sell for \$1.29. There is a spread from \$1.17 to \$1.29, and that is why I say that if you had to sell it at a flat amount at 120 percent, that would be \$1.32 and that would provide stability in the market.

Secretary FREEMAN. This is a question that I never really thought much about before. However, your range under existing law isn't correct. Nevertheless the carrying charge represents storage costs that the trade is subject to in carrying their inventory. CCC, therefore, in selling, recognizes trade practices and costs. If I understand you, you would have CCC sell at the equivalent of 105 percent of the loan rate, plus an average carrying charge. I don't know what effect it would have on the trade if we had a fixed price that did not vary month to month, as their costs do. I would want to give further thought to the matter. I would think, however, that such a sales policy would result in a great deal of maneuvering in the first three quarters of the year when CCC would be locked out of the market. I think it would result in CCC holding most of the carryover stocks. Such a fixed sales price may seem more definite at first glance, but my guess is that it would be rather unsettling to the market. However, I am not really sure of the results without thinking further about it.

Senator MILLER. In all fairness, I had not thought about this until Senator Ellender brought this out in the course of some hearings a couple weeks ago.

I suggest that it could be vital. I would appreciate it if you might check into this and give us the benefit of your views and your reactions.

Secretary FREEMAN. I will be happy to do so.
(The information follows:)

USE OF THE SAME CCC SALES PRICE THROUGHOUT THE YEAR

We believe that to have one flat CCC minimum sales price throughout the marketing year would be a step in the wrong direction. As you know, about a year ago we increased the carrying charges from 1 to 1½ cents per bushel per month. This was done at the request of the trade to fully reflect carrying costs and the normal seasonal pattern of farm prices. A flat resale price would discourage the trade from carrying their normal inventory unless purchases could be made at well below the CCC minimum sales price. No doubt this situation would occur and thus a flat resale price would not increase farm prices during the early months of the marketing year. In fact, what is likely to happen is that during most of the marketing year market prices would be below the CCC minimum sales price and CCC sales would be limited to a relatively few months of the year.

CROPLAND ADJUSTMENT

Senator MILLER. One of the major criticisms that I have heard of the feed grains program is that it has not reduced the production of feed grains at a reasonable cost to the taxpayer. It is held by some that the reason is that the marginal land rather than good productive land is being retired in many cases. How can this program be changed to get more productive land and less marginal land in?

Secretary FREEMAN. I do not know of any way that can be done, frankly. We started with 1959-60, and at that time, presumably, most farmers were farming their best land in corn and their least productive land was in something else.

You have to start somewhere. On that basis, we have required that some of that land should be retired as a part of this program. I do not know of any kind of fluctuating standard that you could apply to require that you should get more productive land.

Every farmer is going, of course, to take out his least productive land, but, presumably, most of the land that he had planted in 1959-60 was productive land.

Senator MILLER. May I invite your attention to the fact that S. 891, which has been introduced by several Senators, including myself, does provide an approach which we hoped would be helpful in this respect.

I would like to just quote from this and then get your comment. On pages 4 and 5, it says, and I quote:

The Secretary shall make an annual rental payment to producers who (1) retire and devote cropland to soil-conserving uses with proper management pursuant to subsection (b) of this section and (2) otherwise comply with the cropland retirement program as set forth in this table.

The Secretary shall determine the rate of rental payments that will provide producers with a fair and reasonable annual return on the land retired and devoted to soil-conserving uses after taking all relevant factors into consideration, including (1) the incentive necessary to achieve a voluntary participation in the program, (2) the loss of crop production on the retired acres, (3) any savings in cost which result from not planting crops, (4) the estimated profit margin of crop production on the designated acres, (5) continuing farm overhead expenses, (6) the cost of establishing a conservation process on the retired acres, (7) the value of the land for production of commodities customarily grown on such kind of land in the county or area, and (8) drought, flood, or other abnormal conditions.

The rate on lands determined in accordance with the preceding paragraph shall be adjusted on a State, county, and individual farm basis in such a manner as the Secretary determines will facilitate the practical administration of the

program. The lands to be covered by contracts shall be determined by a competitive bid procedure whereby a producer wishes to obtain a contract shall specify the percentage of the rental rate applicable to his farm which he is willing to accept.

The CHAIRMAN. Let us go off the record.

(Discussion was had outside the record.)

The CHAIRMAN. We will recess now until 2:30 o'clock this afternoon.

(Whereupon, at 12:15 p.m., a recess was taken until 2:30 p.m., this same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Mr. Secretary, are you ready to answer that question that was propounded to you prior to the recess?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Proceed.

Secretary FREEMAN. Senator Miller, I have thought a good bit over the noon hour, and it would be my best judgment that to try to operate a bid system on a 1-year basis would be administratively impossible. You have to put a 1-year program into effect with some dispatch. You would have to have a valuation account and a productivity account for every possible combination of fields and of different sectors of land on a particular operation. We will propose to use a bid system and see how it works, under a cropland adjustment program, where you are working under a long-term land adjustment program. But on a year-by-year basis, it would be our best judgment, and I checked this with operating people, that it would be impossible to function on a yearly basis.

Senator MILLER. Mr. Secretary, from what I understand of it, I would thoroughly agree with you that this would not be practical on a 1-year basis. My question, however, is not premised on a 1-year program, necessarily. If you think that it is feasible on a longer basis, then it would be my judgment that we should try a longer basis. How many years would you recommend? Would it be 3, or 5 or 10?

Secretary FREEMAN. We are recommending, as the Senator is aware, under title 5 of this act, a long-term land adjustment program with 5-year contracts. Under that, we would propose to try the competitive bid system.

Senator MILLER. On a 5-year basis?

Secretary FREEMAN. Yes.

Senator MILLER. What about the possibility of cranking this bid and the 5-year basis program into the feed grains diversionary section?

Secretary FREEMAN. Well, it would accomplish the same purpose wherever you want to put it.

Senator MILLER. Well, could we not put it in this main program here in order to get more production out?

Secretary FREEMAN. It would not make any difference where it was put, it would operate the same way. The object of the cropland adjustment program would be to get productive acres that had bases and allotments and get them retired for a longer term basis, because it would be more efficient and less costly to do it that way. We would propose to move as much land as we could where we could get participation at a lower cost on feed grain acres into the longer term contract.

Senator MILLER. I am wondering if we could not use this program which you have just described in lieu of this other one?

Secretary FREEMAN. No; because we will have to do both. For one thing, it will take us some period of time, we think 3 or 4 years, to move the requisite number of acres into a long-term contract base. We are going to be able to do that in 1 and probably not in 2 years.

Second, we probably will not be able to get—at least we will not know until we try—enough land out to accomplish the purpose we are now accomplishing under the regular feed grain program. To the extent that we succeed in doing so, we shall have replaced the feed grain program so far as those acres are concerned, and done so at a lower cost. That is the whole purpose of the combination of the annual and long-term program at the same time.

Senator MILLER. I am just wondering, if we made these determinations, or if you made the determinations on a pretty refined basis, and I am confident you have the statistics and the data available, and you made the bidding amounts high enough, we could not get pretty good compliance right away, so that we would not have to continue with the program under which may farmers simply retire marginal land from production which defeats the purpose as a program.

You and I are both trying to get production down to consumption. That is the purpose of the program. But if the purpose of the program is frustrated because of this marginal land requirement, why could not we avoid that by going into this 3- or 5-year land retirement program on a bid basis, make it attractive enough so that we could do it?

Secretary FREEMAN. I do not think the program is being frustrated by marginal land retirement. You will get exactly the same approach in that the farmer will make available his land, his least productive land. Under the present annual feed grain program it is presumably productive land or it would not have been used back in 1959 anyway. So that problem is going to be faced and to the same degree, whether it is a 1- or a 5-year program. That will make no difference.

The purpose for having a long-term program is twofold. First, because it will be cheaper; second, because we shall be able to move some of that land into new permanent uses. This can be done under the longer term program. So we can operate these programs side by side and see what develops. If we should succeed in getting 40 million acres of land under the cropland adjustment program, we obviously would operate a much smaller feed grain program.

Senator MILLER. Then it is your thinking that—I suppose you are planning that as time goes on—next year, the year after, the year after that—this long-range retirement program, using competitive bids, could grow while the regular feed grains program could contract, so that we are going to use them both now, but we are hoping that the long-range program will eventually take over pretty well. Is that what you are saying?

Secretary FREEMAN. Yes. I think it will certainly take over for a significant number of acres. We may still need, in order to have the flexibility which you might need when you have variations in crop years production which can run as much as 10 bushels to an acre, you might need an annual instrument to apply. But the goal would

be to minimize the short-term retirement and maximize the long-term retirement.

Senator MILLER. Thank you, Mr. Secretary.

CCC RESALE PRICE

The CHAIRMAN. Now, in respect to the resale by the Commodity Credit Corporation, as I understand, if a farmer makes a loan on his corn, it is usually for a year?

Secretary FREEMAN. He may redeem it within a year; yes, sir.

The CHAIRMAN. But you are not permitted to dispose of it until that year expires?

Secretary FREEMAN. That is correct.

The CHAIRMAN. Now, at the end of that year what would be the cost to the Government?

Secretary FREEMAN. Well, we will have——

The CHAIRMAN. Per bushel.

Secretary FREEMAN. First of all, the farmer pays the cost, if he sees fit——

The CHAIRMAN. If he sells it. But I am talking about if you take it over.

Secretary FREEMAN. If we take it over—actually, if we take it over, we will still have paid it for the first year, because that is deduced from the amount he receives, a 1 year cost of carrying it.

The CHAIRMAN. That would mean—what would be the loan for 1964? Take an example of 1964.

Mr. JAENKE. It was \$1.10 national average.

The CHAIRMAN. All right. You loan the \$1.10.

Mr. JAENKE. Yes, sir.

The CHAIRMAN. When the farmer made the loan at \$1.10 during the year he was able to redeem it if he desired.

Mr. JAENKE. The loan was reduced by the amount of charges, warehouse charges. But from then until the following August 1, at which time it would be turned over to the Government, the farmer must pay for the storage. In other words during the period it is under loan. If it is turned over to the Government, beginning on August 1, in the case of corn, then the Government incurs the obligation for storage.

The CHAIRMAN. You mean at the end of the year or at the end——

Secretary FREEMAN. At the end of 11 months; yes, sir.

The CHAIRMAN. It is from that time that you charge this 1.5 cents a bushel that you mentioned to Senator Miller a while ago?

Secretary FREEMAN. From that time on, we pay storage.

The CHAIRMAN. I understand that. So if you should have occasion to sell this corn, say within 2 months after the farmer fails to redeem, the sale price would be what?

Secretary FREEMAN. That would be the first month of the marketing year so it would be the loan only.

October, you are referring to. For November, it would be loan plus 1.5 cents.

The CHAIRMAN. If it remains that for 12 months it would be 12 times that?

Secretary FREEMAN. No, carrying charges are added for 9 months. The total is 13.5 cents.

Senator YOUNG. Mr. Chairman, are you going to another subject?

The CHAIRMAN. Not right now.

Senator MILLER. Would the chairman yield at that point?

The CHAIRMAN. Yes.

Senator MILLER. I believe he said 12 times that much. I believe it is not the practice to charge for August and September. So it would be 10 times that much.

Mr. JAENKE. No, nine times 1.5 cents. The cost would be 13.5 cents. The addition to carrying charges would be for the first 10 months of the marketing year, but no carrying charge is added the first month.

FEED GRAINS

The CHAIRMAN. Now, I was handed an article by Don Muhm in which he stated that the State of Iowa, the total expenditures for this program have climbed steadily from \$107 million in 1961, the first year of the program, to \$192 million in 1964, and the estimates place the cost of this year's program in Iowa at \$220 million.

Now, I have here that the average production in Iowa was, in 1959–63, 787,196,000 bushels of corn and the amount to be produced according to the latest estimates for 1965 will be 807,840,000 bushels.

For the State of Illinois for the same period—that is, 1959–63 averaged—it was 680,779,000, and the estimates for 1965 are 805,715,000 bushels, showing an increase somewhat similar, maybe not quite as great as that in Iowa.

Now, if we add the production in Illinois and in Iowa—first, the average, 1959 to 1963 averaged—if we add those two figures, it indicates that those two States produced 38.4 percent of the corn grown in this country, and under the 1965 program, if you add what those two States will produce, those two States will produce 41.2 percent of the corn produced in this country. So that those two States are getting the bulk of the payments, and there seems to be an increase instead of reduction in production. How do you account for that, Mr. Secretary?

Secretary FREEMAN. There has been a very significant increase in production, because of the continuing upward trend in yields, Mr. Chairman. This is one of the reasons this program has been necessary.

The CHAIRMAN. Has been what?

Secretary FREEMAN. Has been necessary.

The CHAIRMAN. Well, I thought under the program we envisioned a reduction by virtue of cutting back acreage. Here we have a situation in the two States, the two main producers, where there has apparently been no reduction in the production from the 1959–63 average to what they are supposed to produce in 1965. It would seem to me that there is something wrong with the program, that these two States ought to be, ought to produce so much in contrast to what they produced in the average 5 years, 1959–63.

Secretary FREEMAN. Mr. Chairman, these figures are only explainable in terms of the fact that there has been a very significant increase in the yield per acre.

The CHAIRMAN. Yes.

Secretary FREEMAN. If we had not had a very significant number of acres diverted under the feed grain program, there would have been an enormous increase in production, far beyond that which did occur.

The CHAIRMAN. I cannot see that, Mr. Secretary, because I do not believe that they would put so much fertilizer in to grow corn at 80 cents a bushel.

Secretary FREEMAN. Well, if we had corn at 80 cents a bushel, Mr. Chairman, I am afraid we would have a net farm income of \$6 billion instead of \$13.5 billion.

The CHAIRMAN. Well, that may be true, but this program from its inception back in 1961 was geared to appreciably reduce our surplus. As I pointed out in this record before, in the 4 years of operation, the cost has been over \$5,400 million. We reduced about 27 million tons, and the cost per bushel is about \$6 a bushel to produce this amount. Now, Mr. Secretary, I grant you that our surplus problem may be aggravating, but for a program that has cost so much, I am disappointed that the reduction in surplus has not been greater than what it is now.

That is all I have to say.

Senator MONDALE. Mr. Chairman?

The CHAIRMAN. All right, Senator Mondale.

Senator MONDALE. Mr. Secretary, what would be the anticipated Federal stocks of feed grains today in the absence of the feed grain program?

The CHAIRMAN. Are you going to assume that the production would have been the same as now with the support prices you have and the umbrella you are holding over the producers?

Secretary FREEMAN. Mr. Chairman, if we assume that the feed grain program we had in 1960 had continued in effect under which corn sold for around 95 cents on the farm there would be about 103 million more tons of feed grain in Government hands today.

Senator MONDALE. What was the total, Mr. Secretary?

Secretary FREEMAN. Over a hundred million tons.

The CHAIRMAN. That is assuming that the production would have been——

Secretary FREEMAN. May I correct that, Mr. Chairman? I was thinking of a combined figure here. May the record show that the figures that we have carefully developed are as follows: With a 1960-type program in effect the last 4 years, taking into consideration both the lower price and the resulting greater utilization, the total carry-over for the 4 years would have been 82 million tons more than under the current program.

The CHAIRMAN. Now, when you give that figure, though, you include not only corn but barley and milo and all others?

Secretary FREEMAN. Yes, sir; that is a combined feed grain program, yes, sir.

The CHAIRMAN. But here—well, anyhow, just throw this in the record for what it is worth.

Senator MONDALE. Mr. Secretary, would that be 82 million tons over the existing carryover that you found in 1960 so that it would be something like 83 million tons plus 82 million tons in storage?

Secretary FREEMAN. It would be 82 million tons plus the roughly 55 million tons we currently have, which would be 137 million tons.

Senator MONDALE. So that if we wanted to calculate the savings to the Government from reduced stocks, it would be the difference between that figure and the some 56 million tons we now find in storage because of the effectiveness of the feed grain programs?

Secretary FREEMAN. That is right.

Senator MONDALE. And not the difference between 83 million tons and 56 million?

Secretary FREEMAN. That is correct.

The CHAIRMAN. Would you mind having him place in the record at this point what that cost would have been?

Senator MONDALE. I have no objection.

The CHAIRMAN. As I pointed out, the cost was \$5.4 billion to get this reduction of 27 million tons.

Senator MONDALE. You see, Mr. Chairman, my argument is that it is not a reduction of 27 million tons, it is a reduction of what would have been in storage if it had not been for this program and what is in storage today, a reduction that is substantially more than 27 million tons. Indeed, as I calculate the Secretary's figures, a reduction of over 100 million tons.

Am I correct in that?

Secretary FREEMAN. It was——

Senator MONDALE. Over 100 million tons.

The CHAIRMAN. Well, I do not know how you juggled the figures. I guess an economist could take this and make it look one way and make it look the other.

But the point I am making is we have actually spent—you take this year's estimates. The payments will be \$1,300 million, and next year the Secretary says, under this new program, it is going to be reduced \$100 million, which will mean that the feed grain program will cost us next year \$1,200 million.

It seems to me—I do not know, I may be in error about it, but that program has been very costly and the farmers do not seem to desire to reduce. The urge is to put more fertilizer and more of this, and imagine, as I pointed out here, in the State of Iowa, the average for 1959–63 production was 787,196,000 bushels, and I presume that Iowa did cut back a lot of acreage. But the estimate this year will be 807 million.

In other words, with payments of \$232 million that the Government is making to the farmers of Iowa to reduce acreage, they are going to produce 20 million bushels more than they did on the average 1959 to 1963. In Illinois the situation is worse; corn producers there are going to produce 125 million bushels more this year than their average for those years.

Senator MILLER. Will the chairman yield to me?

Senator MONDALE. I was asking some questions, Mr. Chairman, of the Secretary. I would like to complete that, if I may.

The CHAIRMAN. Certainly. I thought you were through, Senator.

Senator MONDALE. Mr. Secretary, do you have some figures on the per-acre cost of the various commodity programs which might indicate the cost of the feed grain program per acre?

Secretary FREEMAN. Yes.

Senator MONDALE. What do they reflect?

Secretary FREEMAN. A comparison of the different programs on a cost-per-harvested-acre basis is as follows for 1964: Rice, \$95; wheat, \$30; feed grains, \$15; cotton, \$62; tobacco, \$26; peanuts, \$23.

Senator MONDALE. Do you have the same figures which indicate Government support for farm, broken down by commodity?

Secretary FREEMAN. Yes.

Senator MONDALE. What do they reflect?

Secretary FREEMAN. Per allotment farm, again for 1964: rice, \$12,050.

The CHAIRMAN. That has been corrected, Mr. Secretary.

Secretary FREEMAN. I would certainly stand corrected.

The CHAIRMAN. Your Department agreed that the number of farms you figured—I am not trying to argue now for rice, do not misunderstand me. But the record which I believe your Department revised—they used a different figure. That is what I tried to say a while ago. It depends on who uses the figures. You can make this \$12,000, you can make it \$9,000, you can make it \$7,000, depending on the number of allotments you use.

Senator MONDALE. I would accept \$7,000. My point still stands.

The CHAIRMAN. \$7,800. There is no question—it has been put in the record already. There is no question that the per unit cost on rice is greater than that for corn. The reason for it is simply this, that the rice farmers are asked to plant more rice for export to these hungry people from southeast Asia that we are now fighting with. As I remember, the amount of money——

Senator MONDALE. Did they not like our rice?

Pardon me. You said the ones we are now fighting with.

The CHAIRMAN. Yes, with us. We fed them and now they are fattened up and they fight us.

We consume about 40 percent of the rice produced in this country and 60 percent of it is sold and given away abroad. Of the 60 percent that is sold abroad, the Public Law 480 accounts for about half of that and dollar sales for the other half. That is the reason why the rice program is so costly, because the major part of it is sold abroad. That is the reason for it. And of course, all that has been put in the record.

But the point I am trying to make is that with all the money we are spending, here in Iowa—and I do not want to jump on Iowa, the Corn State—but with 840,000 acres less than was planted in the average years of 1959-63, you produced 127 million more tons—I mean bushels, of corn. Do you get the idea?

Senator MILLER. Will you yield?

Senator MONDALE. I am still asking questions, if I may.

The CHAIRMAN. Surely.

Senator MONDALE. Do you have other figures on the per-farm cost of the Federal farm programs for the other commodities?

Secretary FREEMAN. Yes, Senator Mondale, we do. The cost per allotment farm now in wheat is \$850; feed grains, \$473.

Senator YOUNG. In your feed grain program, of course, you have barley and milo and all the others, do you not?

Secretary FREEMAN. Yes, sir. Continuing, cotton is \$1,421; tobacco, \$49; peanuts, \$337.

On a percentage of value of production basis, it is 47 percent for rice; 66 percent for wheat; 22 percent for feed grains; 39 percent for cotton; 2 percent for tobacco; and 13 percent for peanuts.

Senator MONDALE. Do you have figures that reflect the percentage of the total income which farmers receive for a particular commodity which is accounted for by Federal payments? That is, the percentage of the total crop income, for example, for feed grains that is accounted for by—

Secretary FREEMAN. In my best recollection—I was going to check this figure. I think I used it before. About 6 percent of the overall income can be accounted for by Government payments.

Senator MONDALE. That would vary by commodity, would it not?

Secretary FREEMAN. That would vary considerably by commodity.

Senator MONDALE. Do you have figures which indicate, for example, how much of the rice crop payments income comes from Government as distinct, say, from wheat?

What I am getting at, Mr. Secretary, is I think the feed grains farmers' income has a lower proportion of Federal support than any of the other commodities we are dealing in.

Secretary FREEMAN. Let me provide the record with those figures, Senator MONDALE. I do not have them in mind. Since we are discussing feed grains and costs related thereto, I would like to take this opportunity to point out that the Department has calculated the cost of the production avoided under the 1961–64 feed grain programs. As the chairman very properly mentioned, the result that you get depends somewhat on the figures that you use. However, we have made every effort to be conservative in this comparison. The voluntary diversion programs held feed grain production during 1961–64 about 3.7 billion bushels below what would have been produced under a continuation of a 1960-type program. This production was avoided at a total land diversion cost of slightly less than \$3 billion—or 80 cents per bushel. Even if price-support payments are included in that computation, the payments made per bushel of feed grains production avoided amounted to less than \$1 a bushel, this is significantly less than the cost would have been for acquiring, storing, and handling such grain.

(The information follows:)

CCC cost relationship for specified commodities, 1960–64 crops

Commodity and crop years	Realized loss and CCC costs ¹ (in millions of dollars)	Number of allotment farms	Cost per allotment farm	Harvested acres (in thousands)	Cost per harvested acre	Value of production ² (in millions of dollars)	Government costs as percent of value of production
1964 crop:							
Rice.....	170.0	14,108	³ \$12,050	1,786	\$95	359.7	47
Wheat.....	1,470.0	1,730,085	850	49,170	30	2,214.1	66
Feed grains.....	1,510.0	3,190,653	473	100,161	15	6,740.0	22
Cotton, upland.....	860.0	605,000	1,421	13,951	62	2,224.8	39
Tobacco.....	28.0	565,692	49	1,080	26	1,307.4	2
Peanuts.....	32.0	95,000	337	1,397	23	246.9	13
1963 crop:							
Rice.....	179.7	14,484	³ 12,407	1,771	101	352.1	51
Wheat.....	1,835.5	1,721,000	1,066	45,209	41	2,357.8	78
Feed grains.....	1,395.2	3,199,856	436	107,380	13	6,879.1	20
Cotton, upland.....	485.1	639,000	759	14,072	34	2,428.3	20
Tobacco.....	38.8	570,156	68	1,176	33	1,351.8	3
Peanuts.....	28.3	98,000	289	1,409	20	226.7	12

See footnotes at end of table.

CCC cost relationship for specified commodities, 1960-64 crops—Continued

Commodity and crop years	Realized loss and CCC costs ¹ (in millions of dollars)	Number of allotment farms	Cost per allotment farm	Harvested acres (in thousands)	Cost per harvested acre	Value of production ² (in millions of dollars)	Government costs as percent of value of production
1962 crop:							
Rice.....	159.9	14,853	³ \$10,766	1,773	\$90	332.6	48
Wheat.....	1,832.2	1,772,076	1,034	43,541	42	2,513.2	73
Feed grains.....	1,149.7	3,258,729	353	103,250	11	6,400.5	18
Cotton, upland.....	385.8	760,000	508	15,475	25	2,341.4	16
Tobacco.....	41.0	572,462	72	1,225	33	1,363.8	3
Peanuts.....	21.2	106,000	200	1,412	15	199.3	11
1961 crop:							
Rice.....	134.7	15,016	³ 8,970	1,589	85	278.6	48
Wheat.....	1,568.2	1,651,918	949	51,551	30	2,258.4	69
Feed grains.....	1,697.5	2,861,000	593	106,346	16	6,206.5	27
Cotton, upland.....	388.7	800,000	486	15,575	25	2,338.2	17
Tobacco.....	29.2	573,070	51	1,174	25	1,315.0	2
Peanuts.....	12.1	114,000	106	1,410	9	190.9	6
1960 crop:							
Rice.....	157.6	15,394	³ 10,238	1,595	99	248.4	63
Wheat.....	1,421.9	1,643,237	864	51,896	27	2,365.2	60
Feed grains.....	955.7	(⁴)	(⁴)	127,826	7	5,469.1	17
Cotton, upland.....	555.6	925,000	601	15,249	36	2,136.4	26
Tobacco.....	31.6	577,288	55	1,142	28	1,183.8	3
Peanuts.....	16.7	116,000	144	1,410	12	178.7	9

¹ Fiscal year most closely comparable to crop year listed; e.g.—fiscal 1965 costs relate most closely to 1964 crop year. Includes loss on sales, donations, carrying charges, commodity export payments, gross costs of Public Law 480 programs and other related costs. For wheat also includes IWA, land diversion and price-support payments; feed grains also include price-support and land diversion payments; cotton includes equalization payments. Public Law 480 costs do not include (a) dollar proceeds from sales of foreign currencies under title I and (b) dollar repayments under long-term credit and supply contracts (title IV). Interest and administrative costs are excluded (except for IWA).

² Includes Government payments where applicable.

³ No diversion program in effect—no farm bases established.

⁴ Since the number of producer allotments is greater than the number of farm allotments, the cost per producer allotment would be somewhat less.

The CHAIRMAN. Are you through, Senator?

Senator MONDALE. Yes, Mr. Chairman.

The CHAIRMAN. I understand, Mr. Secretary, there are 3,200,000 units that produce corn—that is, farms.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. How many units do you use in making your division to reach the figure you just indicated to Senator Mondale?

Secretary FREEMAN. 3,190—3 million, I mean; 3,190,000.

The CHAIRMAN. That is what you are figuring. How many participated in the program?

Secretary FREEMAN. In terms of the total number of eligible feed grain farms, about 40 percent participated in each of the 1961-64 programs. Based on the program signup just completed, this figure will increase sharply for the 1965 program.

The CHAIRMAN. So that instead of dividing this cost business by the number of participants, you put in the whole number of growers who grow corn?

Secretary FREEMAN. That is correct.

The CHAIRMAN. Of course, you cannot apply that to rice, or you cannot apply that to cotton, because not everyone is permitted to grow rice or cotton, because if they do, they are penalized. So that if you divided the number of units that actually participate, you would find different figures.

So as I said—I am not going to argue this out. We shall wait until we get to the Senate floor to do that.

But I wish you would put in the record the number of units that you used in making your figures for all of these and how many of those units participated in the program.

Secretary FREEMAN. I shall do that.

Senator YOUNG. Mr. Chairman?

The CHAIRMAN. Yes, Senator.

Senator YOUNG. I would like to ask three or four questions.

Do you have separate cost figures for corn and wheat? You listed feed grain. Of course, that includes oats and rye and barley and sorghum and everything.

Secretary FREEMAN. Yes. We do have separate figures for the different grains; yes.

Senator YOUNG. Could you give us those figures for corn as well as wheat, and just what is included in the cost of the wheat program?

Secretary FREEMAN. We do not have here under the figures we were given, Senator Young, the different figures for the combined feed grains. We just had a combined feed grain figure. We could provide a breakdown if you wanted that.

Senator YOUNG. I think you should, because there is a vast difference between the costs of a barley program and an oat program and a corn program per acre.

Secretary FREEMAN. Yes.

The CHAIRMAN. I think the point I just made, that it is my belief that the number of units that are in the program, the number of units that is in the program should be the test and not the number of units that produce corn—why, in the corn program, I do not know what percentage, but many of them do not participate at all. They just plant all they want, all they desire. The reason is they are protected by the fact that support prices are made available and the corn market is usually held up to a fair price, and probably just a few cents under the support price.

Senator YOUNG. Mr. Secretary, when you put in these cost figures in the record, would you itemize what you list as costs of price supports for wheat and corn; what goes into the makeup of these costs?

Secretary FREEMAN. The realized loss in CCC costs, which would be all the CCC costs of taking it over, of handling it, of interest charges, of carrying charges, and what was sold; then we would end up with the realized loss which is the difference between the costs we incurred and the costs—

Senator YOUNG. Does that include Public Law 480 and the famine relief?

Secretary FREEMAN. Yes. This is for 1964. It would include Public Law 480.

Senator YOUNG. Famine relief and all that?

Secretary FREEMAN. Yes. I would be willing to say that to this extent, this is an inflated figure which does not take into consideration concessional, humanitarian, and welfare programs.

Senator YOUNG. Yes.

(The information is as follows:)

FEED GRAINS AND WHEAT.—Estimated realized loss and CCC costs, by commodity—Fiscal year 1964-65

[Million dollars]

Item	Feed grains and products					Wheat and products
	Corn and products	Grain sorghums	Barley	Oats	Total	
Realized loss:						
Carrying charges ¹	150	93	8	9	260	175
Loss or gain ² on sales.....	² 18	² 30	² 4	² 1	² 51	² 92
Cost of donations.....	22				22	125
Price support payments.....	224	45	13		282	
Acreage diversion payments.....	729	146	40		915	33
Commodity export payments.....						10
Total realized loss on price support and related programs.....	1, 107	254	57	10	1, 428	251
CCC costs:						
Public Law 480: ³						
Title I—Sales for foreign currency.....	35	4	9		48	963
Title II—Disaster relief and self-help programs.....	14	3			17	92
Title IV—Long-term dollar credit sales ⁴	15	1	1		17	125
Total, Public Law 480 ³	64	8	10		82	1, 190
International Wheat Agreement.....						29
Total realized loss and CCC costs....	1, 171	262	67	10	1, 510	1, 470

¹ Consists of storage, handling, transportation, and resale loan storage payments (does not include processing cost and interest).
² Denotes receipt.
³ Amounts shown represent gross costs, including ocean transportation—Does not reflect recoveries from sales of foreign currencies under title I and collections under title IV.
⁴ The export market value of title IV shipments, including applicable ocean transportation, is repayable in U.S. dollars over the period of time specified in the various agreements.

CROPLAND ADJUSTMENT

Senator YOUNG. I would like to go back to the land retirement program which we were discussing awhile ago.

The CHAIRMAN. Very well.

Senator YOUNG. Do you recall, Mr. Secretary, when you appeared before this committee before, I expressed some concern as to your approach in taking land out of production under your land retirement program. For example, I think you said that the first acres going into the land retirement program would have to be allotted acres. For example, if a farmer had 400 cultivated acres and he took out 100 acres, that 100 acres would have to be all wheat allotment for the wheat farm; is this correct?

Secretary FREEMAN. That is correct.

Senator YOUNG. And if the farmer only had a 100-acre wheat allotment, in order to participate in the program, he would have to put all of his wheat allotment into the program?

Secretary FREEMAN. That is correct.

Senator YOUNG. I am sorry you have come up with this type of program because I would have to oppose it. I think a more reasonable approach would be that if a farmer had 400 cultivated acres, and he put a hundred acres into the land retirement program, one-fourth of his cultivated acres, then he would only be required to take out one-fourth of his wheat allotment, if it is a wheat allotment, or corn

acreage, or whatever it is. No wheat farmer could take part in a program such as you outline. I do not think a corn farmer could either, if the first acres he put into it had to be all his allotment.

Secretary FREEMAN. In fact, Senator Young, and the language is purposely very general in this regard, so we can experiment and exercise, I hope, some solid discretion, would be that for a farmer who wanted to take out only part of his allotment and would cooperate to the extent of wanting to come under the program, why, he would come under a 1-year program. It would be only if he were going to come under for a longer period that we would expect his total allotment to come out. Therefore, we would have these two programs functioning coterminously.

Senator YOUNG. The only participants you would get in the wheat area would be those who wanted to quit farming. Certainly no one who wanted to stay in the farming business could take part. May I repeat again, and give this example: A farmer has 400 cultivated acres and he wants to put 100 acres in the land retirement. Under your proposal, he would have to put his entire wheat allotment in the program. All he would have left to raise would be some unprofitable crops or switch to corn or maybe some other crop in surplus.

I do not know if I make myself plain or not. I have tried my best.

Secretary FREEMAN. I think there is some merit in what you are saying. Basically, your position is that we ought not to require a complete allotment, and we ought not to expect that he go out of producing that crop.

Senator YOUNG. If he took one-fourth of his cultivated land out of production and put it in a soil bank or land retirement program, he would have to retire 25 percent of any bases or allotment he might have. I think that would be a fair approach. A farmer could live with that.

Secretary FREEMAN. There may be some merit in this, Senator Young. We might have leaned over backward and I am going to rethink this a bit, and I have been thinking about it since you earlier called it to my attention. We are very concerned and wanted to make it very clear from the very beginning that we do not propose to take in the crop retirement program, the low-grade land that is not being used by anyone. Our targets in this program are twofold: First, to get highly productive land out of production as cheaply as possible; second, to take that same kind of land but also to move other kinds of land that might not be as highly productive into other kinds of usage where they could contribute to recreation and new kinds of enterprises.

Your point, I think, may be a good one and I think it somewhat overlaps what Senator Miller is driving at; that is, why should we not take 25 percent of his allotment and retire it for 5 years, as well as take 100 percent of his allotment and retire it for 5 years. That is the point you are making?

Senator YOUNG. Yes. The mistake that they made under the soil bank program was if he took the 100 acres out of production, he could shift all of his wheat allotment or any other allotment over to the rest of his land. He did not have to take any of it out of production.

Secretary FREEMAN. In other words, he would have to do the same as he does now under the 1-year program, like the wheat program, only he would do it for 5 years, presumably at a lower price, but those

The CHAIRMAN. Let us say this, that in the State of Illinois, the total feed grain farms amounts to 209,291, but those who participated are only 81,799.

Now, in the State of Iowa, of 190,965 farms that produce grain, 122,271 participated.

Senator MILLER. What I was getting at——

The CHAIRMAN. I know what you are getting at.

Senator MILLER. Perhaps the number of the Illinois farms which participated, which was, I believe, fewer than half of the total number of units, contributed far more to production than the others. In any event, I think if the Secretary furnishes those figures, it will be helpful.

The CHAIRMAN. I imagine that quite a large number of farmers, both in Illinois and in Iowa, who produce a lot of corn probably did not participate in the program. But anyhow, I think the question that you propounded to the Secretary, in giving you the number of acres of participants and the number of acres of nonparticipants, will probably shed some light.

Senator MILLER. May I ask one further question? This gets back to a question I asked earlier this morning regarding the utilization figures. It may be that the record should be corrected on this point, because the figures I have, and I believe they have been taken from the Department's own figures, indicate a reduction in production for the years 1961, 1962, 1963 and 1964 of 45.6 million tons of corn, grain sorghum, barley, and oats. But of that total, 11.7 million tons relates to oats, which was not in the program.

So looking only at those items which were in the program, we would have a reduction in production of 33.9 million tons. Measured against that should be an increase in utilization which I have of 23.5 million tons for those 4 years. It may be that the figure that was given earlier in answer to my question related only to 1 year. I believe something was said about a 5-million-ton increase in utilization, but actually, the increase in utilization, domestic use and exports, was 23.5 million tons during that period of time.

Secretary FREEMAN. Again, we always have the problem of carefully refining our figures. But the total utilization for 1960, for example, was 146 million tons, and for 1964, it was 150 million tons, or only 4 million tons more.

Senator MILLER. May I suggest, Mr. Secretary, that you have to measure against that the increased utilization for each year and then add them together. If we do that, we will find that during the years 1961, 1962, 1963, and 1964, counting each year's increase, it becomes 23.5 million. I have used the same approach with respect to production.

Taking the production for corn, grain sorghum, and barley for 1960, I have measured against that for each year the reduction in production and added that together. I get 33.9-million-ton reduction.

Secretary FREEMAN. Be that as it may, that still totally ignores the question of a significantly increased yield per acre which otherwise would have reduced the amounts that came into focus from Senator Mondale's questions. In the absence of a program which would have prevented and did prevent the additional production we would have had 80-plus million tons more of feed grain on hand now than we do have.

Senator MILLER. May I say that I recognize that without a program, we would have had a catastrophe, but I do not believe there is anybody around here that I know of that was not advocating a program. The point I want to emphasize today is that we did have a production of 33.9 million tons, and increased utilization of 23.5 million tons in the same period. I do not believe that the figures that were given earlier covered the 4-year period to which I was referring. These do.

The CHAIRMAN. Well, I handled the program in 1961, I think it was. It was to be a temporary program, so that in the meantime, we could enact a law to more or less regulate production, give them a program the same as you did for the other commodities, where you had acreage allotments. That was my understanding, and Senator Humphrey when he used to sit on this committee with us—he is now Vice President—advocated as I did, a program of acreage controls for corn. That was the only way by which you could get the surpluses down without too much cost.

In order to carry out that idea that was thought of in 1961, before the temporary program was put on the books, we envisioned that. But this temporary program has become a permanent one, because it has been renewed for 4 years, and now we are supposed to renew that program for 4 more years. I do not expect better results than have been obtained in the past.

CCC RESALE PRICE

Now, we go to CCC release values. That is the next item, Mr. Secretary.

It has been suggested that the minimum prices or values at which CCC stocks of wheat and feed grains can be released for domestic use should be increased. What are the currently effective minimum release values on the PIK certificates or otherwise? Have you those figures available for us?

Secretary FREEMAN. Yes; the present provision calls for a release into the market by the Commodity Credit Corporation at 105 percent of the loan rate, with carry charges of 1.5 cent per month.

The CHAIRMAN. Do these release provide adequate incentives for the trade to carry its own inventories?

Secretary FREEMAN. In my judgment, they do.

The CHAIRMAN. How would higher release values affect producer participation?

Secretary FREEMAN. I think it would serve to sharply discourage the voluntary participation in the program and would thereby significantly weaken particularly the feed grain program but also the wheat program. The fact that a higher resale price would make the very useful substitution provision inoperative, is an important reason why, in my judgment, we ought not to increase the resale level. As you know, the substitution provision gives farmers greater freedom of decision and action regarding any use of their crop acreage. It is very popular.

The CHAIRMAN. Well, I presume that it would act as the better protection for the nonparticipants in these programs, would it not? That is, particularly corn.

Secretary FREEMAN. Yes. The Chairman's point is well made. To the extent that you require a higher release level the price would tend to move up, the nonparticipant would be favored; that is correct.

The CHAIRMAN. I do not think there is any question about that.

Secretary FREEMAN. No; the point is well taken.

The CHAIRMAN. As I discussed with you previously, it might be well that we consider reducing the support price and adding more direct payments to those who qualify and participate in the program.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. How would an increase in the release value affect the cost of the program?

Secretary FREEMAN. I think it would tend to increase the cost of the program as it decreased the participation in the program, because stocks would tend to increase and you would be defeating the purpose of the program.

The CHAIRMAN. I am going to ask no further questions on that subject, because I think we have covered it fairly well. If there are any Senators who desire to pursue the matter further, they are at liberty to do so at this time.

Any questions?

(No response.)

RICE

The CHAIRMAN. If not, we go to rice.

By the way, I noticed the House deleted the title affecting rice. They ordered the bill reported, as I understand, and they did not provide for a rice program. That means the old program will remain on the statute books, unless we do something about it, which might be better than was offered by the Department.

In respect to rice, Mr. Secretary, many of the witnesses who testified on rice legislation expressed concern about the effect on consumption of a price increase under the certificate plan. How much would this increase be for table rice? Have you that for the record?

Secretary FREEMAN. It would range for the individual from 3 to 6 cents a pound difference in cost.

The CHAIRMAN. Three to six cents a pound. Now, for brewers' rice?

Secretary FREEMAN. I do not think it would have any effect.

The CHAIRMAN. Why is that?

Secretary FREEMAN. Because the rice that the brewers use is a low-quality rice and some of the broken kernels and I think it would tend to move at the same prices it moves at now. The additional costs would be reflected in the certificates that would run to the rice that was moving to table use.

The CHAIRMAN. Well, we have information to the effect that if the price of rice is raised from 3 to 6 cents per pound, quite a lot of competition would develop for this brewer's rice by the people who eat rice, and that more of that cheaper rice would be used than is now consumed by the brewers.

Secretary FREEMAN. Well, if that is the case, why, then, of course, the cost of the rice for human consumption would fall—there would be, then, perhaps, be some increased cost in the brewer's rice. Our best estimate would be that that would not happen that way.

The CHAIRMAN. Well, we have a vote. We had better go ahead and settle it.

We shall be right back.

(Brief recess.)

The CHAIRMAN. The committee will please come to order.

Mr. Secretary, what would be the effect on consumption of table rice?

Secretary FREEMAN. Total basis, Mr. Chairman?

The CHAIRMAN. Yes.

Secretary FREEMAN. We would estimate that consumption would hold steady for about 1 year instead of increasing about a million hundredweights in overall consumption.

The CHAIRMAN. What about high-consuming areas such as Hawaii, Puerto Rico, California, Louisiana, where the record shows that consumption in Puerto Rico is around 120 pounds per capita; California in some places 100 pounds per capita.

Similarly, you find that to be the case in Louisiana and some parts of Hawaii.

Secretary FREEMAN. The chairman is, of course, absolutely right. There is an uneven pattern of consumption where the rice is concerned, with a heavier consumption in some of the States, including Louisiana, with the heaviest consumption of all in Puerto Rico. Also, in these areas, there is the tendency to use the cheaper rice where the cost does not run as high. In many of these cases, a good part of that consumption is represented on rice that is made available through concessional programs.

The argument is made, Mr. Chairman, that this will be highly adverse to the low-income people in that area. I would submit for the record that we would be accomplishing our purposes better if we priced our rice competitively so it could move in increasing quantities in world markets, and then shipped and targeted our food aid programs for the people at the low-income levels so they would get adequate food through our direct distribution and food stamp program. In this fashion the very nominal amounts involved in the differences in the cost of rice which are not going to have any major effect on the diet of the people concerned, would be more than overcome by the access to a more balanced and nutritious diet through more effective programs in those areas.

The CHAIRMAN. Well, you have some areas in my State as well as Puerto Rico and California where you could not substitute rice because that is what they eat. As I just pointed out, the per capita consumption there is as high as 120 pounds. You take a family of seven or eight children, where the average is going to be that many pounds per person, it would be a tremendous cost to those people less able to pay for this higher rice.

Secretary FREEMAN. I would submit for the record that the maximum figure that we estimate—and, incidentally, the range is from about 30 cents per capita per year nationwide, to an estimated \$4 for Puerto Rico, with the heavy consumption——

The CHAIRMAN. Per capita?

Secretary FREEMAN. Per capita per year.

The CHAIRMAN. How do you reach the figure of \$4?

Secretary FREEMAN. In terms of interpolating the volume of rice consumed——

The CHAIRMAN. Well, the record shows 120 pounds per capita average in Puerto Rico. Now, assuming that the price——

Secretary FREEMAN. 3.5 cents per pound.

The CHAIRMAN. Why do you put it at 3.5 cents when it is 3 to 6 cents?

Secretary FREEMAN. It would be about 3.5 because the rice consumed in that area is the brown short rice, and it is bought usually in bulk quantities of about 100 pounds. It actually works out between \$3.5 to \$4 per capita in Hawaii and Puerto Rico based upon the kind of consumption pattern which exists in those areas. This I would submit to the chairman, even for a family of 10, would be \$40 a year. We would certainly expect that if people are in the poverty group, their yearly income ought to be supplemented with more adequate food than represented in the \$40 worth of rice a year for a family of 10. So I do not think this gets to be a very meaningful kind of figure in terms of the welfare of the people involved in that area.

On the other hand, the rice program itself gives the very real possibility to rice, perhaps more than any other commodity, of a good, growing, expanding world market that we could move into increasingly by competing at world prices. I think most rice producers and most of the opposition to this bill has come, I think, from a misunderstanding on the part, not of producers, but basically of processors; they basically misunderstand this. I think most producers would prefer to produce more at perhaps a little less per unit, but to end up with a greater net profit and use their resources more adequately. It is surely in the national interest that where we do have a growing international market for rice, we should service that market and not cut back our production. This is one commodity where we do not need to cut back our production if we have a sensible program costwise.

The CHAIRMAN. Do you really believe that the rice farmers of our country could grow rice in competition with China, with Thailand, with Burma?

Secretary FREEMAN. I am suggesting, Mr. Chairman, that we have a program here, a certificate program, like the wheat program, which has already proven itself, where we would be able to maintain the farm income of the producers, would cut the cost to the Government, and could significantly increase the production of rice, and everybody would benefit.

The CHAIRMAN. Well, in regard to the rice program, as I pointed out earlier today, only about 38 to 40 percent of our production is used domestically. That would mean, according to your views as expressed in the bill, that a rice farmer would obtain 40 percent on his production at a price parity, which would be on an average of about what, \$6?

Secretary FREEMAN. About \$6.50.

The CHAIRMAN. \$6.53; and on the rest of it, to produce, he would have to compete with world markets?

Secretary FREEMAN. That is correct.

The CHAIRMAN. Which would mean an average of about \$1.75 or \$2 a hundredweight less.

Secretary FREEMAN. That is correct.

The CHAIRMAN. What, in your opinion would be the effect on the use of processed rice in industry for baby food, cereals, candy, et cetera?

Secretary FREEMAN. I do not think it would have any effect at all. The amount of rice that is used in these things is relatively small, and the price change involved here is such that I would not look for any adverse effect on the processed forms.

The CHAIRMAN. You should have heard the witnesses who are engaged in the manufacture and use of rice for those purposes testify. Some of them said it would put them out of business.

Secretary FREEMAN. I am aware of that. They always say that and it never happens.

The CHAIRMAN. How can you reduce the cost under the statutory authority that you now have?

Secretary FREEMAN. You mean the price support?

The CHAIRMAN. Yes.

Secretary FREEMAN. Well, we can do three things to try to bring the price down. One is to cut back the Public Law 480 sales. Another is to drop the acreage. Another is to drop the price support.

The CHAIRMAN. So that it might be possible for you to reduce the price to 65 percent of parity under the present law?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And the acreage to 1,600,000?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Well, of course, if you exercise that authority it will necessarily decrease the farm income.

Secretary FREEMAN. Yes, it will, and that is what I do not want to have happen.

The CHAIRMAN. Well, again, as I said, we might provide for a little program of payments for diverted acres, the same as you have for the other crops.

Secretary FREEMAN. Well, I would respond to this that the chairman, of course, is right, that this would tend to cut costs, but it would also cut production. This is one area where we do not need to cut production, where there is a market that we can service at world prices, as we have outlined. I think it would be unfortunate not to service that market and to cut production in a commodity where more production is really needed.

The CHAIRMAN. Well, of course, you as Secretary of Agriculture, as far as I know, have always been for better and more farm income.

Secretary FREEMAN. Yes, sir; I have.

The CHAIRMAN. Well, you will not be too bad. I mean you will not exercise your full power, I hope, under this rice program should the Congress be unable to obtain enough votes to pass your program, will you?

Secretary FREEMAN. May I, at this time, Mr. Chairman, lapse into the proverbial position of saying, if you please, sir, I would prefer not to comment.

The CHAIRMAN. Very well.

Everyone was opposed to this certificate plan but several witnesses offered an alternative suggestion as a way to cut costs in the rice program. They wanted a flexible and more realistic and larger subsidy to get more dollar exports and less Public Law 480. In other words, why not reduce Public Law 480 and increase dollar exports. Would not that be possible?

Secretary FREEMAN. No; I do not think that is a very thoughtful suggestion, Mr. Chairman, because we are increasing our commercial exports. We are competitive in world prices or we would not be doing so. It simply is not possible to move the volume of Public Law 480 into commercial exports at anything approximating the current world price. I just do not think this is a practical suggestion or that it could be accomplished.

The CHAIRMAN. Well, now, what is the difference between world prices and price supports? Let us take the years 1963 to 1964. Would you put that in the record?

Secretary FREEMAN. Yes, we would be happy to put in the record when the price-support level which has ranged from \$4.50 to \$4.71 during this period and the world—this is on the rough rice; is it not?

Mr. JAENKE. That is right.

Secretary FREEMAN. That would be how much on the milled rice?

Mr. JAENKE. That would be about \$6 to \$7.

The CHAIRMAN. My understanding is that the average export subsidy is about \$1.60 per hundred.

Secretary FREEMAN. That is right. To that extent, to be competitive in the world prices, we have to make up that difference.

The CHAIRMAN. Does that differential apply the same for dollars as for Public Law 480?

Secretary FREEMAN. Yes, it is exactly the same, except, of course, it is the total cost paid out under Public Law 480. We pay it at the domestic price that it is supported at about \$6.40, milled rice equivalent roughly. Or about \$4.50 on a rough rice basis.

The CHAIRMAN. In other words, that difference is reflected—

Secretary FREEMAN. That is correct.

Mr. JAENKE. It is the cost.

(The information follows:)

Rice: Support price, season average price, export subsidy, estimated world export price, and Public Law 480 unit cost, fiscal years 1961-66

[In dollars per hundredweight]

Fiscal year	Support price (rough basis)	Season average price (rough basis)	Export subsidy		Estimated world export price for milled rice, Rough equivalent ²	Public Law 480 cost per hundredweight	
			For milled rice	Rough equivalent ¹		For milled rice	Rough equivalent ¹
1961-----	4.42	4.55	2.78	2.00	2.55	8.14	5.86
1962-----	4.71	5.14	2.62	1.89	3.25	8.94	6.44
1963-----	4.71	5.04	2.22	1.60	3.44	8.23	5.93
1964-----	4.71	5.01	2.32	1.67	3.34	7.90	5.69
1965-----	4.71	4.92	³ 2.28	1.64	3.28	³ 7.39	5.32
1966-----	4.50	(⁴)	(⁴)	(⁴)	(⁴)	(⁴)	(⁴)

¹ Rough equivalent derived by applying 72 percent milling yield to milled rice values.

² Difference between season average price and export subsidy (rough equivalent).

³ Preliminary, as of May 31, 1965.

⁴ Not available.

The CHAIRMAN. Now, you spoke of developing markets for rice abroad. Could you give us an idea of what the prospects are for the future?

Secretary FREEMAN. I think—

The CHAIRMAN. And what you base your prognostications on?

Secretary FREEMAN. I believe that there are excellent prospects for increasing rice markets. Japan, for the first time in the last 10 years, last year bought in the neighborhood of 150,000 tons of rice. This year they may go as high as 300,000 tons of rice.

This is a growing market as their population and standard of living goes up. They are going to need rice and need it very badly in Vietnam for the years immediately ahead and in a good many countries of Asia where they are rice-eating countries where their population is outgrowing their agricultural productivity. As these countries begin to improve, their agricultural consumption climbs as well.

I think we have reasonable prospects for continuing to expand our rice markets in Western Europe. So both on a commercial and a Public Law 480 basis we have good prospects for using significantly greater quantities of rice.

The CHAIRMAN. Is that one of the reasons the administration is advancing the proposal now before us?

Secretary FREEMAN. It is.

The CHAIRMAN. In order to grow more rice?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. For export?

Secretary FREEMAN. To grow more rice for export at less cost to the Government and more income to the growers.

The CHAIRMAN. Well, I wish I could figure it out that way but I have been unable to do it.

Secretary FREEMAN. I don't have any trouble figuring it out that way, Mr. Chairman.

The CHAIRMAN. Well, I have done some figuring, quite a bit of it, and I have been abroad to see how they work in contrast to us and their production is, of course, in many areas greater than ours, all handwork or hand cranking.

Secretary FREEMAN. That is correct.

The CHAIRMAN. And the cost of gathering, it is so much cheaper than ours, that is, on a per unit basis, because it is all handwork at cheap labor, and I can't see that we can ever compete with them even if the farmer were given this 100 percent of parity on domestic consumption, and then sell the rest at world prices. I can't see them making——

Senator COOPER. May I ask a question?

The CHAIRMAN (continuing). Making too much—their gross income may be increased but not their net income.

Senator Cooper?

Senator COOPER. I think it is obvious that one of your objectives for this program and other programs is to open up new dollar markets, hopefully. Is that correct?

Secretary FREEMAN. Yes.

Senator COOPER. Have there been any countries where there has been a change from a Public Law 480 market to a dollar market?

Secretary FREEMAN. A good many, Senator Cooper. I think the most dramatic example is Japan, which today is our No. 1 market for agriculture in the world, importing over \$700 million worth of agricultural commodities every year. We also are beginning to move increasing quantities into Taiwan. It is also true of Spain, it is also true of Greece, it is also true of Yugoslavia.

There are a number of other countries that I could name and the experience is that each one of the developing countries as it begins to improve its economy its imports of foodstuffs tend to climb, and some of the more sophisticated foodstuffs that we produce, particularly so.

Senator COOPER. I think it was expected after the war that some of the more industrialized countries would become dollar markets again. I think it would be useful to place in the record a list of those countries which have changed from local currency markets to dollar markets.

Secretary FREEMAN. Very good, sir; we will be very pleased to do that.

(The information follows:)

The following countries, which in earlier years received substantial amounts of U.S. agricultural commodities under title I, Public Law 480 (sales for local currencies), have now become fully commercial dollar markets: Austria, Finland, France, Italy, Japan, Mexico, Peru, Portugal, Spain, and United Kingdom.

In addition, the following countries, which formerly received commodities under title I, Public Law 480 (sales for local currencies), have now been shifted to long-term dollar credits under title IV—a change which we hope will be a transition to fully commercial dollar markets: Greece, Iran, Poland, Taiwan, and Yugoslavia.

The CHAIRMAN. We provided such on title IV, I think it is, of Public Law 480, to encourage more——

Secretary FREEMAN. Yes, sir.

The CHAIRMAN (continuing). Cash markets.

Secretary FREEMAN. This is a hypothetical projection but it is estimated by economists that I have had working on this in the Department that a 10-percent per capita increase in income in the more rapidly growing less-developed countries will reflect itself in approximately a 21-percent increase in imports of that country for agricultural commodities—the average expected increase in imports for all less-developed countries is about 16 percent.

The CHAIRMAN. Now, Mr. Secretary, if we permitted the present law to remain on the statute books and provide for diversion payment on acres which would be the difference between 1.6 million and what the farmers are now planting, so as to give the rice farmer a fair income, would such a program cost more or less to the Government?

Secretary FREEMAN. I think it would cost less.

The CHAIRMAN. Less.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. Now, what would it be in 1965?

Secretary FREEMAN. What would it be in 1965?

The CHAIRMAN. Yes. Would you supply that for the record?

Mr. JAENKE. Yes, sir. We will have to work that out.

The CHAIRMAN. Work it out for—what would be the case as to the crop of 1964 and the crop of 1965, because there is a differential, as you know, in the price.

Mr. JAENKE. It will be somewhat less. We will have to give you that.

The CHAIRMAN. Yes. You could give that to us.

(The information follows:)

As has been repeatedly pointed out by the Department of Agriculture, the only reason for reducing acreage and price support in the rice program would be to reduce the high cost to the taxpayers involved in this program. If alternative legislation is enacted that would reduce the cost, consideration of acreage reduc-

tion and/or price-support levels would be avoided. Whatever additional costs would be involved in the diversion programs would go directly to farmers, would result in a total cost of the program below what is currently being expended, but would be above the cost without such diversion payments. The estimated costs would be as follows:

RICE.—Estimated income and expenditures, 1964 and 1965 crops under announced program provisions and with hypothetical diversion program ¹

Item	Unit	Estimated, 1964-65		Projected, 1965-66	
		Present program	Minimum allotment with diversion pay	Present program	Minimum allotment with diversion pay
Prices and income:					
National average support price.	Dollars per hundredweight	4.71	4.71	4.50	4.50
Level of support	Percent	74	74	69	69
Season average price	Dollars per hundredweight	4.92	4.92	4.70	4.70
Value of production	Million dollars	360	322	350	315
Diversion payments ⁴	do		12		11
Total income	do	360	² 334	350	² 326
Estimated program expenditures:					
Public Law 480 costs ³	do	113	64	104	57
Diversion payments ⁴	do		12		11
Other ⁵	do	50	53	52	54
Total expenditures	do	163	129	156	122

¹ Assumes diverted acreage approximately equal to the difference between statutory minimum (1,652,600 acres) and announced allotment (1,818,600 acres).
² Lower gross income partly offset by elimination of production cost on diverted acres.
³ Includes ocean transportation.
⁴ The amount of diversion payments would depend on the rate to be applied. There would need to be further and more detailed study to determine appropriate rates for this program. The expenditure shown is based on a rate approximately equal to 40 percent of the support rate and a yield of 41 hundredweight.
⁵ Price support and related programs.

Now, are there any further questions as to rice? I have two more here that I would like to ask.

Now, the rice industries—some of the rice industry people say that the domestic market for rice will be cut 25 to 40 percent by the certificate program. I am sure you don't agree to that from your past testimony and I wish you would tell us why for the record.

Secretary FREEMAN. I simply do not believe that you would have that sharp a drop in consumption. We estimate that the equivalent of 1 year's increased consumption might well be lost while this adjustment is made.

As I say, approximately 1 million hundredweights. And we do not see the impact on consumption that has been testified to here by certain people in the industry who have opposed the certificate program and who are doing very handsomely under the present one and would just as soon not have any change.

The CHAIRMAN. Well, assuming that such a situation were to occur, what would happen to the level of certificates issued?

Secretary FREEMAN. Mr. Chairman, we would propose to issue the certificate based upon the estimate that we have made. We feel confident enough in those estimates that we would be prepared, as the old saying goes, to put our money where our mouth is and issue certificates based upon our estimates of what the impact would be on consumption.

The CHAIRMAN. Now, what would you do with the actual rice produced? I presume do what you are now trying to do, send it abroad under Public Law 480.

Secretary FREEMAN. Yes. There would be additional rice. There is a demand for the Public Law 480 rice, and we also would be in a better position to expand our dollar markets.

COTTON

The CHAIRMAN. All right. We now come to cotton and I will ask that there be placed in the record a letter addressed to me as chairman of the committee dated July 13 signed by Senator Montoya and Senator Eastland with enclosures that they ask to be put in the record. We will have it placed in the record at this point, and following that, the information requested on transportation costs which are reflected in cotton prices abroad.

(The material referred to follows:)

U.S. SENATE,
July 13, 1965.

HON. ALLEN J. ELLENDER,
Chairman, Senate Committee on Agriculture and Forestry,
Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: During the appearance of Mr. C. B. Ray representing the Cotton Producers Legislative Committee on June 29, you requested that he present to the Senate Committee on Agriculture and Forestry, a suggested draft for the two marketing plans offered in his testimony.

The critical situation in which cotton producers now find themselves has been created to a large degree by U.S. policies which have hampered and curtailed our cotton exports. This condition was not created by the Agricultural Act of 1964 alone, but through lack of initiative in fully developing our true potential during the last 15 years.

The 5-year average exports from 1956 through 1960 was 5,988,000 bales and the 4-year average exports from 1961 through 1964 was 4,581,000 bales.

From information we have received from agricultural economists, the U.S. share of an expanding world market is approximately 7 million bales. We are convinced that this objective can be secured through a concerted effort by the Departments of Agriculture and State with the enactment of one of our two proposals.

We are further convinced that to continue to permanently cut back the productive capacity of our cotton producers through acreage controls, and placing the United States in the position of a residual supplier is not in the best interest of our free competitive economic system.

Working with the Cotton Producers Legislative Committee to carry out your request for means to reduce Government stocks and increase U.S. cotton export markets, we wish to offer the suggested drafts that you requested from Mr. Ray.

Knowing of your deep interest in solving cotton's problems, we hope one of the attached plans will meet with your approval. Either one of these plans will alleviate the problems in both export and domestic consumption of U.S. cotton.

Sincerely,

JOSEPH M. MONTOYA.
JAMES O. EASTLAND.

PROPOSED PLAN No. 1

A BILL To amend and extend the cotton provisions of the Agricultural Adjustment Act of 1938, as amended, and related legislation, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America, in Congress assembled, That, section 103 of the Agricultural Act of 1949, as amended, is amended by adding the following new subsection at the end thereof:

"(d) (1) Notwithstanding any other provision of this Act, price support shall be made available for the 1966, 1967, 1968, and 1969 crops of upland cotton as provided in this subsection.

“(2) The level of price support for the 1966 crop of upland cotton through loans shall be a national acreage support price which reflects 29 cents per pound for Middling one-inch cotton. For the 1967, 1968, and 1969 crops of upland cotton price support through loans shall be at the level of the preceding year, adjusted up or down to reflect changes in the costs of production: *Provided*, That no such adjustment shall exceed one-half cent in any year, and that the level of support be not less than 65 per centum nor more than 90 per centum of the parity for such cotton.

“(3) If producers have not disapproved marketing quotas the Secretary shall provide price support, in addition to that authorized in paragraph (2) of this subsection, on the quantity of upland cotton determined by multiplying the number of acres in the farm acreage allotment which are not planted to cotton by the projected farm yield, through payments in cash or in kind at the following rates:

“(A) For farms on which the acreage planted to cotton does not exceed 80 per centum of the farm acreage allotment, the rate shall be seven cents per pound;

“(B) For farms on which the acreage planted to cotton does not exceed 65 per centum of the farm acreage allotment, the rate shall be eleven cents per pound.

“(4) No price support loan shall be made on cotton produced on export market acreage allotted pursuant to subsection (a) of section 349 of the Agricultural Adjustment Act of 1938, as amended.

“(5) Additional price support provided under this subsection by cash or payments in kind shall be made through the issuance of certificates which the Commodity Credit Corporation shall redeem under regulations issued by the Secretary for cotton valued at not less than the loan rate therefor. The corporation may, under regulations prescribed by the Secretary, assist the producers in the marketing of such certificates at such times and in such manner as the Secretary determines will best effectuate the purposes of the program authorized by this subsection.

“(6) The acreage regarded as planted to cotton on any farm which qualifies for payment under this subsection shall, for purposes of establishing future State, county, and farm acreage allotments and farm bases, be the farm acreage allotment established under section 344 of the Agricultural Adjustment Act of 1938, as amended, excluding adjustments under subsection (m) (2) thereof.”

SEC. 2. Section 348 of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

“SEC. 348. In order to maintain and expand domestic consumption of upland cotton produced in the United States and to prevent discrimination against the domestic users of such cotton, notwithstanding any other provision of law, the Commodity Credit Corporation, under such rules and regulations as the Secretary may prescribe, is authorized and directed for the period beginning with the date of enactment of this section and ending July 31, 1970, to make payments through the issuance of payment-in-kind certificates to persons in the channels of trade in such amounts and subject to such terms and conditions as the Secretary determines will make upland cotton produced in the United States available for domestic use at a price which is not in excess of the price at which such cotton is made available for export: *Provided*, That such payments shall be made only to persons who make application therefor and who assume an obligation that cotton upon which such payments are received will be consumed domestically or exported within the period of the program authorized hereby.”

SEC. 3. Notwithstanding the provisions of section 407 of the Agricultural Act of 1949, as amended, the Commodity Credit Corporation shall not sell any upland cotton at less than 7 per centum above the current price support loan level, plus reasonable carrying charges, except that the Commodity Credit Corporation shall sell a quantity of cotton equal to the normal production of the acreage taken out of production by the diversion program authorized in section 103(d) (3) of the Agricultural Act of 1949, as amended, at current market prices. In offering such cotton for sale for unrestricted use the Commodity Credit Corporation shall offer such cotton in an orderly manner so as not to affect market prices unduly.

SEC. 4. Subsection (a) of section 349 of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

“SEC. 349. (a) For the 1965, 1966, 1967, 1968, and 1969 crops the Secretary may announce an export market acreage, not exceeding two hundred thousand

acres for each such crop, which he finds will not increase the carryover of upland cotton at the beginning of the marketing year for the next succeeding crop above one million bales less than the carryover on the same date one year earlier, if the carryover on such earlier date exceeds eight million bales. Such export market acreage shall be apportioned to the States on the basis of the State acreage allotments established under section 344 and apportioned by the States to farms receiving allotments under section 344, pursuant to regulations issued by the Secretary, after considering applications for such acreage filed with the county committee of the county in which the farm is located. The 'export market acreage' on any farm shall be the number of acres, not exceeding the maximum export market acreage for the farm established pursuant to this subsection, by which the acreage planted to cotton on the farm exceeds the farm acreage allotment. For purposes of sections 345 and 374 of this Act and the provisions of any law requiring compliance with a farm acreage allotment as a condition of eligibility for price support or payments under any farm program, the farm acreage allotment for farms with export market acreage shall be the sum of the farm acreage allotment established under section 344 and the maximum export market acreage. Export market acreage shall be in addition to the county, State, and National acreage allotments and shall not be taken into account in establishing future State, county, and farm acreage allotments."

SEC. 5. Section 301 of the Agricultural Adjustment Act of 1938, as amended, is amended by adding the following new subparagraphs to paragraph (13) of subsection (b) :

"(J) 'Projected National, State, and county yields' for any crop of cotton shall be determined on the basis of the yield per harvested acre of such crop in the United States, the State and the county, respectively, during each of the five calendar years immediately preceding the year in which such projected yield for the United States, the State and the county, respectively, is determined, adjusted for abnormal weather conditions affecting such yield, for trends in yields and for any significant changes in production practices.

"(K) 'Projected farm yield' for any crop of cotton shall be determined on the basis of the yield per harvested acre of such crop on the farm during each of the three calendar years immediately preceding the year in which such projected farm yield is determined, adjusted for abnormal weather conditions affecting such yield, for trends in yields and for any significant changes in production practices."

PROPOSED PLAN No. 2

SEC. 2. Section 348 of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows :

"SEC. 348. In order to maintain and expand domestic consumption of upland cotton produced in the United States and to prevent discrimination against the domestic users of such cotton, notwithstanding any other provision of law, the Commodity Credit Corporation, under such rules and regulations as the Secretary may prescribe, is authorized and directed for the period beginning with the date of enactment of this section and ending July 31, 1970, to make payments through the issuance of payment-in-kind certificates to persons other than producers in such amounts and subject to such terms and conditions as the Secretary determines will make upland cotton produced in the United States available for domestic use at 23.50 cents per pound for Middling one-inch cotton, average location: *Provided*, That if stocks owned by the Commodity Credit Corporation on August 1 of any marketing year are eight million bales or less, then such payments shall be made during such marketing year in an amount which will make upland cotton produced in the United States available for domestic use at a price which is not in excess of the price at which such cotton is made available for export."

(The information on transportation costs supplied by the Cotton Producers Legislative Committee and the Department of Agriculture is as follows:)

Cost of merchandising cotton bought f.o.b. compress, Tallulah, La., sold for prompt shipment to net 23 cents per pound gross weight, 100-bale lots

Landing charges net lint weight (480 pounds)	Genoa, Italy ¹	Ghent, Belgium ¹	Manchester, England ¹	Newnan, Georgia ²	Columbia, S.C. ²	Charlotte, N.C. ²
Freight.....	\$2.42	\$2.31	\$2.36	\$0.75	\$0.89	\$0.89
Merchandising charges.....	1.41	1.41	1.41	.68	.68	.68
Total.....	3.83	3.72	3.77	1.43	1.57	1.57

	Foreign	Domestic
Average of three examples:		
Freight.....	\$2.36	\$0.84
Merchandising charges.....	1.41	.68
Total.....	3.77	1.52

¹ Foreign terms, cost insurance freight, foreign port, rail shipment from interior of U.S. reimbursement basis, sight draft, bill of lading attached, against New York bank, letter of credit, 1-percent commission. Additional charges from port to mill, freight plus services charges.

² Domestic terms, landed mill, rail shipment, reimbursement basis, sight draft, bill of lading attached, on mills bank.

Source: Supplied upon request from Cotton Producers Legislative Committee.

THE EFFECT OF FOREIGN GROWTHS ON THE PRICE OF U.S. COTTON IN WORLD MARKETS

World prices for cotton are determined from offerings of more than 40 producing countries—shipping to more than 50 importing nations.

The attached price lists offer comparisons in the Liverpool and Bremen markets for Middling 1½/2 inch and Strict Middling 1¼/6 inch, which are two of the main qualities traded in those markets. Prices are shown for some of the principal growths sold in those markets.

A first glance at the data shows that often there are opposing price trends between exporting nations that are selling in the same export market. These fluctuations usually result from (1) unforeseen changes in supply, (2) minor differences in quality of the cottons, or (3) changes in fiscal or agricultural policies of either exporting or importing governments, or even of third-party governments.

Further study of the figures will show that U.S. export volumes tend to dip when U.S. prices get out of line with competitive growths for any extended period of time. Conversely, U.S. cotton enjoys a full share of the market when prices are fully competitive.

U.S. producers, seeking to regain their share of world cotton exports, believe that administrators of the U.S. cotton programs should adjust export prices whenever necessary to meet and fully compete with foreign competition.

U.S. producers call for the Secretary of Agriculture to keep prices of competing growth in major importing markets under continuing review, and to adjust U.S. export prices to meet competition by letting subsidies be determined through bidding by U.S. exporters.

*C.i.f. cotton prices, Middling 1½ inch in Liverpool and Bremen markets,
1959-64*

[In cents]

Season	Liverpool			Bremen		
	United States	Mexico	Nicaragua	United States	Mexico	Nicaragua
1959—August.....	26.56	26.49	25.76	28.50	26.58	26.10
September.....	26.42	26.81	26.01	26.44	26.95	26.10
October.....	26.28	27.18	26.24	26.25	27.15	26.30
November.....	26.96	27.46	27.02	26.32	27.02	26.61
December.....	28.04	28.10	27.98	27.56	27.69	27.74
January.....	27.56	27.86	27.69	27.65	27.72	27.82
February.....	27.51	27.76	26.92	27.12	27.20	27.10
March.....	27.57	28.03	26.86	26.92	27.15	26.82
April.....	27.81	27.75	26.88	27.00	27.18	26.78
May.....	27.77	28.01	27.06	26.90	27.45	27.22
June.....	27.74	28.50	27.02	27.63	27.51	27.30
July.....	27.52	28.61	27.15	27.05	27.75	27.40
1960—August.....	27.81	28.12	27.17	26.88	27.75	27.32
September.....	27.92	28.43	27.55	27.20	28.39	27.70
October.....	27.88	28.35	27.84	27.42	28.52	28.00
November.....	28.12	28.38	28.38	27.58	28.48	28.15
December.....	28.15	28.31	28.37	27.62	28.13	28.30
January.....	28.15	28.44	28.67	27.62	28.02	28.15
February.....	28.73	29.46	29.01	27.98	28.20	28.22
March.....	28.63	29.31	29.08	29.15	29.41	28.97
April.....	28.48	29.25	28.80	29.45	29.82	28.96
May.....	28.47	29.52	28.64	29.80	28.75	28.72
June.....	28.57	29.25	28.48	29.80	29.47	28.79
July.....	28.63	29.12	28.70	29.18	29.10	28.82
1961—August.....	28.63	29.11	28.97	28.60	29.19	28.75
September.....	29.11	29.33	29.13	28.61	29.61	29.14
October.....	29.44	29.52	28.98	28.65	29.65	29.20
November.....	29.60	28.95	28.40	28.75	29.51	28.76
December.....	29.82	28.71	28.27	29.04	29.31	28.15
January.....	29.75	28.80	28.56	29.10	29.30	28.29
February.....	29.90	29.04	28.85	29.30	29.30	28.44
March.....	29.58	29.05	28.60	29.10	29.16	28.25
April.....	30.48	28.88	28.74	29.15	28.89	28.30
May.....	30.30	28.76	28.82	29.18	28.97	28.36
June.....	29.29	28.70	28.73	29.10	28.85	28.45
July.....	28.72	28.54	28.69	28.72	28.61	28.32
1962—August.....	28.83	28.08	28.16	28.20	28.06	28.32
September.....	28.66	27.60	27.62	27.78	27.71	27.80
October.....	28.54	27.55	27.30	27.62	27.52	27.15
November.....	28.43	27.88	27.43	28.06	28.03	27.32
December.....	28.65	28.54	28.00	28.50	28.40	27.87
January.....	29.03	28.73	28.51	28.86	28.66	28.41
February.....	29.23	28.57	28.25	28.96	28.75	28.26
March.....	29.41	28.18	28.05	28.75	28.75	27.23
April.....	28.71	27.93	28.12	28.72	28.75	28.12
May.....	27.74	27.83	27.40	28.65	28.65	27.90
June.....	27.73	27.80	27.43	28.65	28.65	27.80
July.....	27.73	27.82	27.40	28.44	28.75	27.67
1963—August.....	27.36	28.18	27.27	27.25	28.02	26.82
September.....	27.28	28.49	27.04	26.94	28.14	26.71
October.....	27.21	28.31	26.98	26.84	27.75	26.70
November.....	27.28	28.21	27.25	26.98	27.68	26.98
December.....	27.41	28.42	27.53	27.15	27.85	27.63
January.....	27.58	28.81	27.66	27.29	28.00	27.95
February.....	27.74	28.89	27.77	27.56	28.09	27.84
March.....	27.86	28.87	27.93	27.85	28.22	28.07
April.....	27.99	28.76	28.08	27.90	28.30	27.78
May.....	27.64	28.93	28.15	27.90	28.20	27.58
June.....	27.59	29.06	28.09	28.00	28.20	27.22
July.....	27.67	28.59	27.79	27.92	28.15	27.18
1964—August.....	27.74	28.25	27.42	27.55	28.06	26.92
September.....	27.66	28.41	27.32	27.56	28.20	26.96
October.....	27.70	28.32	27.32	27.48	28.02	26.92
November.....	27.75	28.11	27.01	27.40	28.05	27.00
December.....	27.96	28.16	27.12	27.36	27.95	26.96
January.....	28.09	28.16	26.76	27.30	27.90	26.74
February.....	28.20	28.25	26.39	27.30	27.78	26.30
March.....	28.24	28.23	26.33	27.30	27.83	26.16
April.....	28.31	28.29	26.70	27.32	27.75	26.30

C.i.f. cotton prices, Middling 1½/32 inch in Liverpool and Bremen markets,
1959-64—Continued

TOTAL EXPORTS FOR SEASON (ALL QUALITIES)

Season	Liverpool			Bremen		
	United States	Mexico	Nicaragua	United States	Mexico	Nicaragua
1959.....	7, 182, 000	1, 298, 000	115, 000	-----	-----	-----
1960.....	6, 632, 000	1, 602, 000	139, 000	-----	-----	-----
1961.....	4, 915, 000	1, 488, 000	242, 000	-----	-----	-----
1962.....	3, 351, 000	1, 888, 000	288, 000	-----	-----	-----
1963.....	5, 662, 000	1, 419, 000	425, 000	-----	-----	-----

C.i.f. cotton prices, Strict Middling 1¼/16 inch in Liverpool and Bremen markets,
1959-64

[In cents]

Season	Liverpool			Bremen		
	United States	Mexico	Iran	United States	U.S.S.R.	Iran
1959—August.....	28. 54	28. 09	27. 88	31. 29	27. 65	28. 90
September.....	28. 48	28. 48	28. 40	29. 35	-----	-----
October.....	28. 64	28. 70	28. 70	28. 65	-----	28. 30
November.....	29. 17	29. 22	28. 83	28. 68	-----	28. 52
December.....	29. 88	29. 91	30. 66	29. 82	29. 56	28. 90
January.....	29. 70	29. 38	30. 98	29. 88	30. 02	28. 75
February.....	29. 61	29. 27	30. 15	29. 38	29. 70	29. 40
March.....	29. 63	29. 35	30. 40	29. 23	29. 58	-----
April.....	30. 03	29. 20	-----	29. 30	29. 38	-----
May.....	30. 00	29. 31	29. 80	29. 28	29. 28	-----
June.....	29. 78	29. 72	29. 85	29. 39	29. 52	-----
July.....	29. 45	29. 84	29. 70	29. 40	29. 65	-----
1960—August.....	29. 68	29. 64	29. 79	29. 20	29. 50	-----
September.....	29. 89	30. 01	29. 83	29. 59	29. 58	-----
October.....	30. 05	30. 16	29. 72	29. 78	29. 98	-----
November.....	29. 90	30. 20	30. 25	29. 85	30. 50	29. 52
December.....	30. 24	30. 12	30. 41	29. 76	30. 48	29. 44
January.....	30. 29	310. 2	30. 78	29. 50	30. 40	29. 55
February.....	30. 96	30. 75	31. 44	30. 05	30. 82	29. 70
March.....	31. 78	30. 60	31. 48	31. 34	31. 58	-----
April.....	31. 92	30. 52	31. 48	31. 50	31. 52	-----
May.....	31. 09	30. 74	31. 00	31. 58	31. 55	-----
June.....	30. 15	30. 66	30. 58	31. 65	31. 54	30. 90
July.....	30. 20	30. 60	30. 48	31. 00	31. 08	30. 42
1961—August.....	30. 23	30. 50	30. 16	30. 44	30. 73	30. 33
September.....	30. 48	30. 56	30. 27	30. 48	-----	30. 45
October.....	30. 68	30. 71	29. 92	30. 40	30. 61	29. 62
November.....	30. 73	30. 15	30. 09	30. 48	30. 27	29. 41
December.....	30. 87	29. 96	30. 21	30. 55	30. 14	29. 45
January.....	31. 04	29. 94	30. 73	30. 60	30. 09	29. 52
February.....	31. 25	30. 09	31. 53	30. 79	29. 92	29. 58
March.....	31. 11	30. 10	31. 68	30. 71	29. 90	29. 88
April.....	31. 95	29. 93	31. 66	30. 82	30. 00	30. 11
May.....	31. 57	29. 82	31. 28	30. 88	30. 24	30. 63
June.....	30. 08	29. 68	30. 13	30. 60	30. 35	31. 18
July.....	30. 00	29. 43	29. 71	30. 26	30. 25	30. 94
1962—August.....	30. 04	28. 95	29. 18	29. 98	29. 98	29. 86
September.....	29. 88	28. 42	28. 62	29. 48	29. 30	29. 25
October.....	29. 82	28. 45	28. 88	29. 30	29. 12	28. 58
November.....	29. 71	28. 78	29. 91	29. 66	29. 43	28. 55
December.....	30. 16	29. 63	30. 08	30. 05	29. 55	28. 88
January.....	30. 72	29. 85	30. 64	30. 35	29. 12	29. 60
February.....	31. 30	29. 70	30. 90	30. 45	29. 46	29. 75
March.....	31. 51	29. 31	30. 36	30. 50	29. 55	29. 75
April.....	30. 34	29. 06	29. 46	30. 52	29. 52	29. 75
May.....	28. 98	28. 98	28. 93	30. 45	28. 90	29. 68
June.....	28. 96	28. 92	29. 14	30. 40	28. 73	29. 55
July.....	28. 91	28. 91	28. 97	30. 22	28. 79	29. 51

C.i.f. cotton prices, Strict Middling 1¹/₁₆ inch in Liverpool and Bremen markets, 1959-64—Continued

[In cents]

Season	Liverpool			Bremen		
	United States	Mexico	Iran	United States	U.S.S.R.	Iran
1963—August	28.75	29.16	28.68	28.82	28.75	29.38
September	28.69	29.49	28.56	28.58	28.78	28.88
October	28.68	29.26	28.61	28.40	28.85	28.52
November	28.74	29.19	29.32	28.69	29.22	28.65
December	28.90	29.36	29.89	29.10	29.85	29.20
January	29.11	29.76	30.02	29.31	30.00	29.48
February	29.32	29.72	30.38	29.55	30.02	29.60
March	29.44	29.70	30.82	29.69	30.06	29.73
April	29.68	29.59	30.91	29.70	30.03	29.75
May	29.66	29.76	30.91	29.80	30.15	29.75
June	29.21	29.89	29.69	30.02	30.15	29.75
July	29.22	29.42	29.33	30.02	30.10	29.64
1964—August	29.30	29.19	29.15	29.49	29.95	29.41
September	29.23	29.39	29.00	29.26	29.86	29.37
October	29.30	29.30	29.32	29.12	29.81	29.65
November	29.38	29.09	29.46	29.28	29.60	29.72
December	29.58	29.14	29.42	29.30	29.59	29.84
January	29.66	29.14	29.08	29.30	29.50	29.68
February	29.70	29.35	29.28	29.38	29.25	29.70
March	29.69	29.33	29.60	29.45	29.12	29.71

TOTAL EXPORTS FOR SEASON (ALL QUALITIES)

1959	7,182,000	1,298,000	190,000		1,800,000	
1960	6,632,000	1,602,000	240,000		1,750,000	
1961	4,915,000	1,488,000	267,000		1,600,000	
1962	3,351,000	1,888,000	222,000		1,500,000	
1963	5,662,000	1,419,000	335,000		1,700,000	

U.S. DEPARTMENT OF AGRICULTURE,
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE,
Washington, D.C., July 26, 1965.

Hon. ALLEN J. ELLENDER,
Chairman, Agriculture and Forestry Committee,
U.S. Senate.
(Attention of Mr. Henry Casso).

DEAR SENATOR ELLENDER: We are enclosing copies of a comparison analysis of cost of purchasing and assembling for shipment to specified domestic and export markets cotton produced in the United States. Also enclosed are copies of the schedule of freight rate location differentials and of base loan rates for eligible 1965 crop upland cotton by warehouse locations.

This information is furnished pursuant to Mr. Casso's telephone request of July 23, 1965, to the cotton policy staff.

Sincerely yours,

H. D. GODFREY, Administrator.

Enclosures.

Comparison of analysis of cost of purchasing, assembling for shipment, and delivery of raw cotton from origin to Liverpool through New Orleans and from Memphis, Tenn., to Charlotte, N.C.

	Memphis, Tenn., to Liverpool (points)	Memphis, Tenn., to Charlotte (points)
Buying commission	20	20
Invoicing charge (seller)	10	10
Interest (45 days, 5 percent)	21	21
Insurance (interior)	2	2
Receiving and 1 month's storage	19	19
Loading and/or marking	10	10
Overhead	50	50
Interior compression	¹ 38	20
Freight to port or group 201	54	77
Forwarding	2	
Wharfage	4	
Patches	10	
Unloading at port and dock handling	7	
Exchange	3	4
Ocean freight (tramp rate) ²	140	
Controller (foreign)	5	
Insurance (marine and war risk)	11	
Selling agent's commission	32	(³)
Quality exactness as against claims system under export contracts		(⁴)
Unloading and delivery to mill	⁵ 35	
Total charges	473	233
Transportation advantage to domestic mills, 2.40 cents per pound		

¹ ½ of bales compressed 2 times.

² Conference rates would be 165 points.

³ ATMI has 20 points here but we are omitting this since at least some of this charge may be included in overhead.

⁴ To the extent that merchants encounter 30 points additional cost (ATMI figure) in selling to domestic mills it should be safe to assume U.S. mills receive cotton worth on the average 30 points more because of assurance that the shipment will meet quality specification.

⁵ ATMI omitted this charge.

Comparison of analysis of cost of purchasing, assembling for shipment, and delivery of raw cotton from origin to Japan through New Orleans and from Memphis, Tenn., to Charlotte, N.C.

	Memphis, Tenn., to Japan (points)	Memphis, Tenn., to Charlotte (points)
Buying commission	20	20
Invoicing charge (seller)	10	10
Interest (45 days at 5 percent)	21	21
Insurance (interior)	2	2
Receiving and 1 month's storage	19	19
Loading and/or marking	10	10
Overhead	50	50
Compression	¹ 8	20
Freight to port or group 201	84	77
Forwarding	2	
Wharfage	4	
Patches	10	
Unloading at port and dock handling	7	
Exchange	3	4
Ocean freight (tramp rate) ²	150	
Controller (foreign)	5	
Insurance (marine and war-risk)	11	
Selling agent's commission	32	(³)
Quality exactness against claims system under export contracts		(⁴)
Delivery to foreign mill	⁵ 25	
Total charges	473	233
Transportation advantage to domestic mills, 2.40 cents per pound		

¹ ½ of bales compressed 2 times.

² Conference freight rate would be 260 points.

³ ATMI has 20 points here but we are omitting this since at least some of this charge may be included in overhead.

⁴ To the extent that merchants encounter 30 points additional cost (ATMI figures) in selling to domestic mills it should be safe to assume U.S. mills receive cotton worth on the average 30 points more because of assurance that the shipment will meet quality specifications.

⁵ ATMI omitted this charge.

Comparison of analysis of cost of purchasing, assembling for shipment, and delivery of raw cotton from origin to Japan through Houston and from Lubbock, Tex., to Charlotte, N.C.

	Lubbock, Tex. to Japan (points)	Lubbock, Tex. to Charlotte (points)
Buying commission.....	20	20
Invoicing charge (seller).....	10	10
Interest (45 days at 5 percent).....	21	21
Insurance.....	2	2
Receiving and one month's storage.....	19	19
Loading and/or marking.....	10	10
Overhead.....	50	50
Compression.....	¹ 46	34
Freight to port or group 201.....	79	112
Forwarding.....	2	
Wharfage.....	4	
Patches.....	10	
Unloading at port and dock handling.....	7	
Exchange.....	3	4
Ocean freight (tramp rates) ²	150	
Controller (foreign).....	5	
Insurance (marine and war-risk).....	11	
Selling agent's commission.....	32	(3)
Quality exactness as against claims system under export contracts.....		(4)
Delivery to foreign mill.....	⁵ 25	
Total charges.....	506	282
Transportation advantage to domestic mills, 2.24 cents per pound.....		

¹ 1 1/3 of bales compressed 2 times.
² Conference rate is 260 points.
³ ATMI has 20 points here but we are omitting this since at least some of this charge may be included in overhead.
⁴ To the extent that merchants encounter 30 points additional cost (ATMI figure) in selling to domestic mills it should be safe to assume U.S. mills receive cotton worth on the average 30 points more because of assurance that the shipment will meet quality specification.
⁵ ATMI omitted this charge.

Comparison of analysis of cost of purchasing, assembling for shipment, and delivery of raw cotton from origin to Japan through Los Angeles and from Fresno, Calif., to Charlotte, N.C.

	Fresno, Calif., to Japan (points)	Fresno, Calif., to Charlotte (points)
Buying commission.....	20	20
Invoicing charge (seller).....	10	10
California ad valorem tax.....	3	3
Interest (45 days, at 5 percent).....	21	21
Insurance (interior).....	2	2
Receiving and 1 month's storage.....	19	19
Loading and/or marking.....	10	10
Overhead.....	50	50
Compression.....	¹ 38	34
Freight to port or group 201.....	48	181
Forwarding.....	2	
Wharfage.....	4	
Patches.....	10	
Unloading at port and dock handling.....	7	
Exchange.....	3	4
Ocean freight (tramp rates) ²	171	
Controller (foreign).....	5	
Insurance (marine and war risk).....	11	
Selling agent's commission.....	32	(3)
Quality exactness as against claims system under export contracts.....		(4)
Delivery to foreign mill ⁵	25	
Total charges.....	491	354
Transportation advantage to domestic mills, 1.37 cents per pound ⁶		

¹ No extra charge for compressing to standard density prior to high-density compression.
² Conference rate would be 260 points.
³ ATMI has 20 points here but we are omitting this since at least some of this charge may be included in overhead.
⁴ To the extent that merchants encounter 30 points additional cost (ATMI figure) in selling to domestic mills it should be safe to assume U.S. mills receive cotton worth on the average 30 points more because of assurance that the shipment will meet quality specification.
⁵ ATMI omitted this charge.
⁶ ATMI figure is 0.42 cents per pound.

FREIGHT RATE LOCATION DIFFERENTIALS FOR 1965 COTTON PRICE SUPPORT PROGRAM

Freight rates on cotton, carload minimum weight 50,000 pounds, from origins in Arizona, Arkansas, California, Illinois, Louisiana, Mississippi, Missouri, Nevada, New Mexico, Oklahoma, Tennessee (west of the Tennessee River), and Texas to Carolina Mill area (group B or group 201). The rates shown on this statement are currently in effect

State and city	County	Freight rate	State and city	County	Freight rate
Alabama-----		(1)	Arkansas—Con.		
Arizona:			Trumann-----	Poinsett-----	83
Amado-----	Santa Cruz-----	181	Waldo-----	Columbia-----	96
Buckeye-----	Maricopa-----	181	Walnut Ridge--	Lawrence-----	85
Casa Grande--	Pinal-----	181	Warren-----	Bradley-----	88
Chandler-----	Maricopa-----	181	West Helena---	Phillips-----	83
Coolidge-----	Pinal-----	181	West Memphis--	Crittenden-----	80
Eloy-----	do-----	181	Wilson-----	Mississippi-----	83
Gilbert-----	Maricopa-----	181	Wynne-----	Cross-----	83
Litchfield Park	do-----	181	California:		
McMicken-----	do-----	181	Arvin-----	Kern-----	181
Marana-----	Pima-----	181	Bakersfield---	do-----	181
Phoenix-----	Maricopa-----	181	Brawley-----	Imperial-----	181
Picacho-----	Pinal-----	181	Buttonwillow--	Kern-----	181
Safford-----	Graham-----	149	Calico-----	do-----	181
Sahuarita-----	Pima-----	181	Caruthers-----	Fresno-----	181
Willcox-----	Cochise-----	149	Chowchilla-----	Madera-----	181
Yuma-----	Yuma-----	181	Coalinga-----	Fresno-----	181
Arkansas:			Corcoran-----	Kings-----	181
Arkadelphia---	Clark-----	88	El Centro-----	Imperial-----	181
Ashdown-----	Little River---	96	Firebaugh-----	Fresno-----	181
Batesville-----	Independence---	88	Five Points---	do-----	181
Blytheville---	Mississippi-----	83	Fresno-----	do-----	181
Boughton-----	Nevada-----	96	Hanford-----	Kings-----	181
Bradley-----	Lafayette-----	96	Helm-----	Fresno-----	181
Brinkley-----	Monroe-----	83	Huron-----	do-----	181
Camden-----	Ouachita-----	96	Imperial-----	Imperial-----	181
Clarendon-----	Monroe-----	83	Kerman-----	Fresno-----	181
Conway-----	Faulkner-----	88	Kingsburg-----	do-----	181
Cotton Plant--	Woodruff-----	83	Locke-----	Sacramento-----	181
Dardanelle-----	Yell-----	88	Los Angeles---	Los Angeles---	181
Dell-----	Mississippi-----	83	McFarland-----	Kern-----	181
Dumas-----	Desha-----	85	Madera-----	Madera-----	181
Earle-----	Crittenden-----	83	Milpitas-----	Santa Clara-----	181
England-----	Lonoke-----	85	Oakland-----	Alameda-----	181
Eudora-----	Chicot-----	86	Pinedale-----	Fresno-----	181
Evadale-----	Mississippi-----	83	Pond-----	Kern-----	181
Fordyce-----	Dallas-----	88	Reedley-----	Fresno-----	181
Forrest City---	St. Francis-----	83	Richmond-----	Contra Costa---	181
Fort Smith-----	Sebastian-----	96	San Diego-----	San Diego-----	181
Gurdon-----	Clark-----	88	San Francisco--	San Francisco--	181
Harrisburg-----	Poinsett-----	83	San Joaquin---	Fresno-----	181
Helena-----	Phillips-----	83	San Jose-----	Santa Clara-----	181
Hope-----	Hempstead-----	96	San Pedro-----	Los Angeles---	181
Hughes-----	St. Francis-----	83	Selma-----	Fresno-----	181
Hulbert-----	Crittenden-----	80	Stockton-----	San Joaquin---	181
Jacksonville---	Pulaski-----	85	Stratford-----	Kings-----	181
Jonesboro-----	Craighead-----	83	Tipton-----	Tulare-----	181
Junction City--	Union-----	96	Tranquility---	Fresno-----	181
Leachville-----	Mississippi-----	83	Tulare-----	Tulare-----	181
Lepanto-----	Poinsett-----	83	Visalia-----	do-----	181
Little Rock---	Pulaski-----	85	Florida-----		(1)
Lonoke-----	Lonoke-----	85	Georgia-----		(1)
McCrory-----	Woodruff-----	83	Illinois: Cairo--	Alexander-----	82
McGehee-----	Desha-----	85	Louisiana:		
Magnolia-----	Columbia-----	96	Alexandria-----	Rapides-----	96
Malvern-----	Hot Springs-----	88	Arcadia-----	Bienville-----	96
Marianna-----	Lee-----	83	Bernice-----	Union-----	96
Marked Tree---	Poinsett-----	83	Bryceland-----	Bienville-----	96
Marvell-----	Phillips-----	83	Bunkie-----	Avoyelles-----	96
Morrilton-----	Conway-----	88	Chatham-----	Jackson-----	96
Nashville-----	Howard-----	96	Cheneyville---	Rapides-----	96
Newport-----	Jackson-----	85	Choudrant-----	Lincoln-----	88
North Little Rock	Pulaski-----	85	Coushatta-----	Red River-----	96
Osceola-----	Mississippi-----	83	Delhi-----	Richland-----	87
Paragould-----	Greene-----	83	Dutach-----	Lincoln-----	96
Pine Bluff-----	Jefferson-----	85	Eunice-----	St. Landry-----	96
Portland-----	Ashley-----	88	Farmerville-----	Union-----	88
Prescott-----	Nevada-----	96	Ferriday-----	Concordia-----	86
Russellville---	Pope-----	88	Franklinton---	Washington-----	82
Searcy-----	White-----	85	Gibbsland-----	Bienville-----	96
Sparkman-----	Dallas-----	96	Gretna-----	Jefferson-----	82
			Haynesville---	Claiborne-----	96
			Homer-----	do-----	96

Freight rates on cotton, carload minimum weight 50,000 pounds, from origins in Arizona, Arkansas, California, Illinois, Louisiana, Mississippi, Missouri, Nevada, New Mexico, Oklahoma, Tennessee (west of the Tennessee River), and Texas to Carolina Mill area (group B or group 201). The rates shown on this statement are currently in effect—Continued

State and city	County	Freight rate	State and city	County	Freight rate
Louisiana—Con.			Mississippi—Con.		
Jonesboro.....	Jaskson.....	96	New Albany.....	Union.....	77
Lake Charles.....	Calcasieu.....	96	Newton.....	Newton.....	80
Lake Providence.....	East Carroll.....	86	Okolona.....	Chickasaw.....	77
Leesville.....	Vernon.....	96	Oxford.....	Lafayette.....	77
Logansport.....	DeSota.....	96	Philadelphia.....	Neshoba.....	77
Mansfield.....	do.....	96	Pontotoc.....	Pontotoc.....	77
Marion.....	Union.....	88	Port Gibson.....	Claiborne.....	82
Minden.....	Webster.....	96	Prentiss.....	Jefferson Davis.....	80
Monroe.....	Ouachita.....	88	Quitman.....	Clarke.....	80
Natchitoches.....	Natchitoches.....	96	Ripley.....	Tippah.....	77
Newellton.....	Tensas.....	86	Rolling Fork.....	Sharkey.....	82
New Orleans.....	Orleans.....	82	Rosedale.....	Bolivar.....	82
Oak Grove.....	West Carroll.....	87	Ruleville.....	Sunflower.....	82
Opelousas.....	St. Landry.....	96	Shaw.....	Bolivar.....	82
Plain Dealing.....	Bossier.....	96	Shelby.....	do.....	82
Port Allen.....	West Baton Rouge.....	95	Shuqualak.....	Noxubee.....	77
Rayville.....	Richland.....	88	Sledge.....	Quitman.....	82
Ringgold.....	Bienville.....	96	Summit.....	Pike.....	80
Ruston.....	Lincoln.....	88	Tunica.....	Tunica.....	82
Shreveport.....	Caddo.....	96	Tupelo.....	Lees.....	77
Springhill.....	Webster.....	96	Tutwiler.....	Tallahatchie.....	82
Tallulah.....	Madison.....	86	Tylertown.....	Walthall.....	80
Westwego.....	Jefferson.....	82	Union.....	Newton.....	77
Winnsboro.....	Franklin.....	88	Vicksburg.....	Warren.....	82
Mississippi:			Water Valley.....	Yalobusha.....	77
Aberdeen.....	Monroe.....	77	Wesson.....	Copiah.....	80
Amory.....	Monroe.....	77	West Point.....	Clay.....	77
Batesville.....	Panola.....	77	Yazoo City.....	Yazoo.....	82
Belmont.....	Tishomingo.....	77	Missouri:		
Belzoni.....	Humphreys.....	82	Arbyrd.....	Dunklin.....	83
Booneville.....	Prentiss.....	77	Caruthersville.....	Pemiscot.....	83
Brookhaven.....	Lincoln.....	80	Charleston.....	Mississippi.....	85
Canton.....	Madison.....	77	Gideon.....	New Madrid.....	85
Carthage.....	Leake.....	77	Hayti.....	Pemiscot.....	83
Clarksdale.....	Coahoma.....	82	Kennett.....	Dunklin.....	85
Cleveland.....	Bolivar.....	82	Lilbourn.....	New Madrid.....	85
Coffeeville.....	Yalobusha.....	77	Malden.....	Dunklin.....	85
Columbia.....	Marion.....	80	Neosho.....	Newton.....	96
Columbus.....	Lowndes.....	77	Portageville.....	New Madrid.....	83
Como.....	Panola.....	77	Sikeston.....	Scott.....	85
Corinth.....	Alcorn.....	77	Nevada: Arden.....	Clark.....	181
Crystal Springs.....	Copiah.....	80	New Mexico:		
Drew.....	Sunflower.....	82	Animas.....	Hidalgo.....	139
Durant.....	Holmes.....	77	Artesia.....	Eddy.....	124
Flora.....	Madison.....	82	Carlsbad.....	do.....	124
Forest.....	Scott.....	80	Deming.....	Luna.....	131
Gloster.....	Amite.....	82	Hobbs.....	Lea.....	116
Goodman.....	Holmes.....	77	Las Cruces.....	Dona Ana.....	125
Greenville.....	Washington.....	82	Lordsburg.....	Hidalgo.....	139
Greenwood.....	Leflore.....	82	Lovington.....	Lea.....	116
Grenada.....	Grenada.....	77	Mesquite.....	Dona Ana.....	125
Gulfport.....	Harrison.....	82	Roswell.....	Chaves.....	124
Hattiesburg.....	Forrest.....	80	Socorro.....	Socorro.....	125
Hollandale.....	Washington.....	82	North Carolina.....	(1)	
Holly Springs.....	Marshall.....	77	Oklahoma:		
Houston.....	Chickasaw.....	77	Ada.....	Pontotoc.....	96
Indianola.....	Sunflower.....	82	Altus.....	Jackson.....	104
Inverness.....	do.....	82	Anadarko.....	Caddo.....	104
Itta Bena.....	Leflore.....	82	Ardmore.....	Carter.....	96
Jackson.....	Hinds.....	80	Carnegie.....	Caddo.....	104
Kosciusko.....	Attala.....	77	Carter.....	Beckham.....	104
Laurel.....	Jones.....	80	Chandler.....	Lincoln.....	104
Leland.....	Washington.....	82	Chickasha.....	Grady.....	104
Lexington.....	Holmes.....	82	Clinton.....	Custer.....	104
Liberty.....	Amite.....	82	Cushing.....	Payne.....	96
Louisville.....	Winston.....	77	Durant.....	Bryan.....	96
McComb.....	Pike.....	80	Eakly.....	Caddo.....	104
Macon.....	Noxubee.....	77	Elk City.....	Beckham.....	104
Magee.....	Simpson.....	80	Enid.....	Garfield.....	104
Magnolia.....	Pike.....	80	Erick.....	Beckham.....	104
Marks.....	Quitman.....	82	Foss.....	Washita.....	104
Meridian.....	Lauderdale.....	77	Frederick.....	Tillman.....	104
Mount Olive.....	Covington.....	80	Guthrie.....	Logan.....	104
Natchez.....	Adams.....	82	Hobart.....	Kiowa.....	104
			Hugo.....	Choctaw.....	96
			Idabel.....	McCurtain.....	96

Freight rates on cotton, carload minimum weight 50,000 pounds, from origins in Arizona, Arkansas, California, Illinois, Louisiana, Mississippi, Missouri, Nevada, New Mexico, Oklahoma, Tennessee (west of the Tennessee River), and Texas to Carolina Mill area (group B or group 201). The rates shown on this statement are currently in effect—Continued

State and city	County	Freight rate	State and city	County	Freight rate
Oklahoma—Con.			Texas—Con.		
Konawa.....	Seminole.....	96	Broadview.....	Lubbock.....	114
Lawton.....	Comanche.....	104	Brookshire.....	Waller.....	104
Lone Wolf.....	Kiowa.....	104	Brownfield.....	Terry.....	114
McAlester.....	Pittsburg.....	96	Brownsville.....	Cameron.....	112
Mangum.....	Greer.....	104	Brownwood.....	Brown.....	104
Marlow.....	Stephens.....	104	Bryan.....	Brazos.....	104
Mountain View.....	Kiowa.....	104	Bula.....	Bailey.....	114
Muskogee.....	Muskogee.....	96	Burton.....	Washington.....	104
Oklahoma City.....	Oklahoma.....	104	Bynum.....	Hill.....	104
Pauls Valley.....	Garvin.....	104	Caldwell.....	Burleson.....	104
Purcell.....	McClain.....	104	Calvert.....	Robertson.....	104
Ryan.....	Jefferson.....	104	Cameron.....	Milam.....	104
Sentinel.....	Washita.....	104	Canutillo.....	El Paso.....	125
Shawnee.....	Pottawatomie.....	96	Carthage.....	Panola.....	96
Snyder.....	Kiowa.....	104	Celina.....	Collin.....	104
Stroud.....	Lincoln.....	96	Center.....	Shelby.....	96
Tipton.....	Tillman.....	104	Chaison.....	Jefferson.....	96
Waurika.....	Jefferson.....	104	Chappel Hill.....	Washington.....	104
Weleetka.....	Okfuskee.....	96	Childress.....	Childress.....	106
Wynne Wood.....	Garvin.....	104	Chillicothe.....	Hardeman.....	104
South Carolina.....		(1)	Clarksville.....	Red River.....	96
Tennessee:			Cleburne.....	Johnson.....	104
Brownsville.....	Haywood.....	78	Coble.....	Hockley.....	114
Covington.....	Tipton.....	78	Coleman.....	Coleman.....	106
Dyersburg.....	Dyer.....	78	Colorado City.....	Mitchell.....	106
Halls.....	Lauderdale.....	78	Commerce.....	Hunt.....	96
Henderson.....	Chester.....	77	Cooper.....	Delta.....	96
Humboldt.....	Gibson.....	78	Corpus Christi.....	Nueces.....	108
Jackson.....	Madison.....	77	Corsicana.....	Navarro.....	104
Memphis.....	Shelby.....	77	Crockett.....	Houston.....	104
Milan.....	Gibson.....	78	Crosbyton.....	Crosby.....	114
Ripley.....	Lauderdale.....	78	Cuero.....	De Witt.....	104
Tennessee.....		(1)	Cumby.....	Hopkins.....	96
(east of.....			Daingerfield.....	Morris.....	96
Tennessee.....			Dallas.....	Dallas.....	104
River). Tiptonville.....	Lake.....	78	Dean.....	Clay.....	104
Texas:			Dean.....	Hockley.....	114
Abernathy.....	Hale.....	112	Dean.....	Leon.....	104
Abilene.....	Taylor.....	106	Decatur.....	Wise.....	104
Ackerly.....	Dawson.....	114	Dell City.....	Hudspeth.....	124
Afton.....	Dickens.....	106	Denison.....	Grayson.....	96
Aiken.....	Floyd.....	112	Denton.....	Denton.....	104
Alba.....	Wood.....	96	Denver City.....	Yoakum.....	114
Alvarado.....	Johnson.....	104	Deport.....	Lamar.....	96
Amarillo.....	Potter.....	112	Dimmitt.....	Castro.....	112
Amherst.....	Lamb.....	114	Dublin.....	Erath.....	104
Anson.....	Jones.....	106	Eden.....	Concho.....	106
Anton.....	Hockley.....	114	Edgewood.....	Van Zandt.....	96
Aspermont.....	Stonewall.....	106	Edna.....	Jackson.....	104
Athens.....	Henderson.....	96	El Campo.....	Wharton.....	104
Atlanta.....	Cass.....	96	Elgin.....	Bastrop.....	104
Austin.....	Travis.....	104	Elkhart.....	Anderson.....	104
Austonio.....	Houston.....	104	El Paso.....	El Paso.....	125
Avery.....	Red River.....	96	Elysian Fields.....	Harrison.....	96
Baileyboro.....	Bailey.....	114	Emhouse.....	Navarro.....	104
Bakersfield.....	Pecos.....	116	Engelman.....	Hidalgo.....	112
Ballinger.....	Runnels.....	106	Gardens.....		
Balmorhea.....	Reeves.....	116	Enloe.....	Delta.....	96
Barry.....	Navarro.....	104	Ennis.....	Ellis.....	104
Bartlett.....	Bell.....	104	Enochs.....	Bailey.....	114
Bay City.....	Matagorda.....	104	Fabens.....	El Paso.....	125
Beaumont.....	Jefferson.....	96	Fairfield.....	Freestone.....	104
Beckville.....	Panola.....	96	Farwell.....	Parmer.....	114
Belton.....	Bell.....	104	Fauna.....	Harris.....	96
Bertram.....	Burnett.....	104	Floydada.....	Floyd.....	106
Big Spring.....	Howard.....	114	Forney.....	Kaufman.....	96
Bledsoe.....	Cochran.....	114	Fort Hancock.....	Hudspeth.....	125
Bloomburg.....	Cass.....	96	Fort Stockton.....	Pecos.....	116
Bogata.....	Red River.....	96	Fort Worth.....	Tarrant.....	104
Bonham.....	Fannin.....	96	Frisco.....	Collin.....	104
Bovina.....	Parmer.....	114	Gainesville.....	Cooke.....	96
Brady.....	McCulloch.....	106	Galveston.....	Galveston.....	96
Breckenridge.....	Stephens.....	104	Ganado.....	Jackson.....	104
Brenham.....	Washington.....	104	Garland.....	Dallas.....	96
			Gary.....	Panola.....	96

Freight rates on cotton, carload minimum weight 50,000 pounds, from origins in Arizona, Arkansas, California, Illinois, Louisiana, Mississippi, Missouri, Nevada, New Mexico, Oklahoma, Tennessee (west of the Tennessee River), and Texas to Carolina Mill area (group B or group 201). The rates shown on this statement are currently in effect—Continued

State and city	County	Freight rate	State and city	County	Freight rate
Texas—Con.			Texas—Con.		
Gatesville.....	Coryell.....	104	Morton.....	Cochran.....	114
Gilmer.....	Upshur.....	96	Mt. Pleasant.....	Titus.....	96
Gonzales.....	Gonzales.....	104	Muleshoe.....	Bailey.....	114
Grand Saline.....	Van Zandt.....	96	Munday.....	Knox.....	106
Grandview.....	Johnson.....	104	Nacogdoches.....	Nacogdoches.....	96
Granger.....	Williamson.....	104	Naples.....	Morris.....	96
Grapeland.....	Houston.....	104	Navasota.....	Grimes.....	104
Grassland.....	Lynn.....	114	Needville.....	Fort Bend.....	96
Greenville.....	Hunt.....	96	New Boston.....	Bowie.....	96
Hale Center.....	Hale.....	112	New Braunfels.....	Comal.....	104
Hamilton.....	Hamilton.....	104	Nocona.....	Montague.....	104
Hamlin.....	Jones.....	106	Norton.....	Runnels.....	106
Harlingen.....	Cameron.....	112	O'Brien.....	Haskell.....	106
Hart.....	Castro.....	112	O'Donnell.....	Lynn.....	114
Haskell.....	Haskell.....	106	Old Glory.....	Stonewall.....	106
Hearne.....	Robertson.....	104	Olton.....	Lamb.....	112
Hebron.....	Denton.....	104	Omaha.....	Morris.....	96
Hedley.....	Donley.....	106	Paducah.....	Cottle.....	106
Henderson.....	Rusk.....	96	Palestine.....	Anderson.....	104
Hillsboro.....	Hill.....	104	Paris.....	Lamar.....	96
Hoban.....	Reeves.....	116	Patricia.....	Dawson.....	114
Honey Grove.....	Fannin.....	96	Peacock.....	Stonewall.....	106
Houston.....	Harris.....	96	Pecos.....	Reeves.....	116
Hubbard.....	Hill.....	104	Petersburg.....	Hale.....	112
Hughes Springs.....	Cass.....	96	Pettito.....	Hockley.....	114
Huntsville.....	Walker.....	104	Pilot Point.....	Denton.....	104
Hutto.....	Williamson.....	104	Pittsburg.....	Camp.....	96
Irene.....	Hill.....	104	Plains.....	Yoakum.....	114
Jacksonville.....	Cherokee.....	96	Plainview.....	Hale.....	112
Jarrell.....	Williamson.....	104	Plano.....	Collin.....	96
Jayton.....	Kent.....	106	Port Arthur.....	Jefferson.....	96
Jefferson.....	Marion.....	96	Post.....	Garza.....	114
Jewett.....	Leon.....	104	Presidio.....	Presidio.....	124
Kaufman.....	Kaufman.....	96	Princeton.....	Collin.....	96
Kenedy.....	Karnes.....	108	Pyote.....	Ward.....	116
Kerens.....	Navarro.....	104	Quanah.....	Hardeman.....	104
Killeen.....	Bell.....	104	Quitaque.....	Briscoe.....	112
Knox City.....	Knox.....	106	Quitman.....	Wood.....	96
Krum.....	Denton.....	104	Ralls.....	Crosby.....	114
Ladonia.....	Fannin.....	96	Raymondville.....	Willacy.....	112
La Grange.....	Fayette.....	104	Rice.....	Navarro.....	104
Lamesa.....	Dawson.....	114	Roans Prairie.....	Grimes.....	104
Levelland.....	Hockley.....	114	Roaring Springs.....	Motley.....	106
Lindale.....	Smith.....	96	Robstown.....	Nueces.....	108
Littlefield.....	Lamb.....	114	Roby.....	Fisher.....	106
Lobo.....	Culberson.....	124	Rochelle.....	McCulloch.....	106
Lockhart.....	Caldwell.....	104	Rochester.....	Haskell.....	106
Lockney.....	Floyd.....	112	Rockwall.....	Rockwall.....	96
Longview.....	Gregg.....	96	Roscoe.....	Nolan.....	106
Loraine.....	Mitchell.....	106	Rosebud.....	Falls.....	104
Lorenzo.....	Crosby.....	114	Rosenberg.....	Fort Bend.....	96
Lovelady.....	Houston.....	104	Rotan.....	Fisher.....	106
Lubbock.....	Lubbock.....	112	Rowlett.....	Dallas.....	96
Lueders.....	Jones.....	106	Royse City.....	Rockwall.....	96
McAdoo.....	Dickens.....	106	Rule.....	Haskell.....	106
McCamey.....	Upton.....	116	Salado.....	Bell.....	104
McGregor.....	McLennan.....	104	San Angelo.....	Tom Green.....	106
McKinney.....	Collin.....	96	San Antonio.....	Bexar.....	108
McLean.....	Gray.....	106	San Augustine.....	San Augustine.....	96
Madisonville.....	Madison.....	104	San Marcos.....	Hays.....	104
Marfa.....	Presidio.....	124	Saragosa.....	Reeves.....	116
Marlin.....	Falls.....	104	Schulenburg.....	Fayette.....	104
Marshall.....	Harrison.....	96	Seagraves.....	Gaines.....	114
Mart.....	McLennan.....	104	Seguin.....	Guadalupe.....	104
Maypearl.....	Ellis.....	104	Seymour.....	Baylor.....	104
Meadow.....	Terry.....	114	Shallowater.....	Lubbock.....	114
Memphis.....	Hall.....	106	Shamrock.....	Wheeler.....	106
Mercedes.....	Hidalgo.....	112	Sherman.....	Grayson.....	96
Mereta.....	Tom Green.....	106	Shiner.....	Lavaca.....	104
Merkel.....	Taylor.....	106	Shiro.....	Grimes.....	104
Mexia.....	Limestone.....	104	Silverton.....	Briscoe.....	112
Midland.....	Midland.....	114	Slaton.....	Lubbock.....	112
Midlothian.....	Ellis.....	104	Snyder.....	Scurry.....	106
Mineola.....	Wood.....	96	Southton.....	Bexar.....	108
Monahans.....	Ward.....	116	Spade.....	Lamb.....	114

Freight rates on cotton, carload minimum weight 50,000 pounds, from origins in Arizona, Arkansas, California, Illinois, Louisiana, Mississippi, Missouri, Nevada, New Mexico, Oklahoma, Tennessee (west of the Tennessee River), and Texas to Carolina Mill area (group B or group 201). The rates shown on this statement are currently in effect—Continued

State and city	County	Freight rate	State and city	County	Freight rate
Texas—Con.			Texas—Con.		
Spade	Mitchell	106	Twitty	Wheeler	106
Spur	Dickens	106	Tyler	Smith	96
Stamford	Jones	106	Valley Mills	Bosque	104
Stanton	Martin	114	Van Horn	Culberson	124
Streetman	Freestone	104	Venus	Johnson	104
Sudan	Lamb	114	Vernon	Wilbarger	104
Sugar Land	Fort Bend	96	Victoria	Victoria	104
Sulphur	Hopkins	96	Waco	McLennan	104
Springs			Wall	Tom Green	106
Sweetwater	Nolan	106	Waxahachie	Ellis	104
Swenson	Stonewall	106	Wellington	Collingsworth	106
Taft	San Patricio	108	Weslaco	Hidalgo	112
Tahoka	Lynn	114	West	McLennan	104
Tarzan	Martin	114	Whiteface	Cochran	114
Tatum	Rusk	96	Whitewright	Grayson	96
Taylor	Williamson	104	Wichita Falls	Wichita	104
Teague	Freestone	104	Wills Point	Van Zandt	96
Temple	Bell	104	Wilson	Lynn	114
Tenaha	Shelby	96	Winnsboro	Wood	96
Terrell	Kaufman	96	Winters	Runnels	106
Texarkana	Bowie	96	Wolfe City	Hunt	96
Texas City	Galveston	96	Wolfforth	Lubbock	114
Timpson	Shelby	96	Yoakum	Lavaca	104
Tornillo	El Paso	125	Yorktown	De Witt	104
Troup	Smith	96	Ysleta	El Paso	125
Tulia	Swisher	112	Virginia		(1)
Turkey	Hall	112			

¹ Zone rate.

Selected high and low examples from schedule of base loan rates for eligible 1965-crop upland cotton by warehouse locations

State and city	County	Basis Middling White Inch loan rate	State and city	County	Basis Middling White Inch loan rate
Alabama:			Missouri:		
Anniston	Calhoun	29.32	Arbyrd	Dunklin	29.10
Mobile	Mobile	29.13	Neosho	Newton	29.04
Arizona:			Nevada: Arden	Clark	28.61
Phoenix	Maricopa	28.61	New Mexico:		
Safford	Graham	28.77	Carlsbad	Eddy	28.90
Arkansas:			Lordsburg	Hidalgo	28.82
Camden	Ouachita	29.04	North Carolina:		
West Memphis	Crittenden	29.12	Avondale	Rutherford	29.52
California:			Conway	Northampton	29.46
El Centro	Imperial	28.61	Oklahoma:		
Fresno	Fresno	28.61	Altus	Jackson	29.00
Georgia:			Muskogee	Muskogee	29.04
Shellman	Randolph	29.22	South Carolina:		
Thomson	McDuffie	29.44	Abbeville	Abbeville	29.52
Louisiana:			Brunson	Hampton	29.46
Alexandria	Rapides	29.04	Tennessee:		
New Orleans	Orleans	29.11	Brownsville	Haywood	29.13
Mississippi:			Chattanooga	Hamilton	29.32
Clarksdale	Coahoma	29.11	Texas:		
Coffeeville	Yalobusha	29.13	Dell City	Hudspeth	28.90
			Denison	Grayson	29.04

The CHAIRMAN. Now, we had testimony that the cotton price-support program encourages production of inferior qualities of cotton and that CCC acquires cotton that the mills do not want.

What are your comments and recommendations on that matter?

Secretary FREEMAN. We are not quite sure in connection with this. There have been allegations that some of the support levels on cotton as set for different grades of cotton have been slightly out of balance and that we were taking on a little more of the lower grade cotton which we are having difficulty moving into consumption.

I am not sure that this is right. We are carefully reviewing the differentials and if it is, this is a matter of correcting the pricing for different kinds of cotton. We do this periodically when they do get a little out of balance.

The CHAIRMAN. Well, it is a fact, though, that you get much inferior cotton from some areas of the country.

Secretary FREEMAN. Different kinds of cotton are produced in different areas, and it is priced—in the market because the market is above the loan rate. I thought the question asked was whether cotton that did not sell above the loan rate and came in at the loan rate and couldn't be sold at that level, should actually be downgraded in effect. I am not sure about that, but there may be some truth in it. We are taking a careful look at it.

The CHAIRMAN. There is a lot of cotton taken in that has the staple length, that is, the length, but the strength of it is much reduced.

Secretary FREEMAN. That is right.

The CHAIRMAN. And are you in a position now under present laws wherein you can provide for a different payment on such cotton as to what would be paid for the better cotton?

Secretary FREEMAN. We——

The CHAIRMAN. In other words, you can grade——

Secretary FREEMAN. We do need some more flexibility in this for some of the lower grades of cotton.

The CHAIRMAN. Well, could you accomplish that without further legislation?

Secretary FREEMAN. I believe we need some additional legislation for some of this.

The CHAIRMAN. Well, you haven't suggested anything in any of the proposals to this committee and if you have any views on it, I think——

Secretary FREEMAN. We will do so.

The CHAIRMAN (continuing). It might be advisable that you let us have those views by way of an amendment.

Secretary FREEMAN. Yes, sir. Very good, sir.

(The information is as follows:)

After considering the matter of the quality of cotton, I believe that section 403 of the Agricultural Act of 1949 gives the Department sufficient authority to determine differentials for the various quality factors of cotton. Methods have been worked out to satisfactorily determine grade, staple, and micronaire, and the Department is now giving consideration to the use of micronaire readings as a quality factor under the price-support program. However, further work will have to be done on tests to determine the fiber strength of cotton before it will be practicable to establish differentials for fiber strength.

We are inserting a table showing the grade and staple length of cotton in CCC's inventory as of March 12, 1965. This table shows that a major part of CCC's stocks are 1 inch and longer and that the stocks are fairly well balanced as to grade and staple.

[In bales]

Grade	1 3/16-inch	7/8-inch	2 9/32-inch	1 5/16-inch	3 1/32-inch	1-inch	1 1/32-inch	1 1/16-inch	1 3/8-inch	1 5/8-inch	1 3/16-inch	1 7/8-inch	1 1/4-inch and longer	All staples
White:														
G.M.	1	8	57	207	262	351	1,809	3,133	306	72	41	4	5	6,208
S.M.	57	1,075	8,408	50,804	29,650	29,338	202,719	427,868	2,759	345	6			753,116
M.+		8	79	262	219	29,897	21,252	47,365	603	88				70,801
M.	291	6,517	57,201	165,814	83,043	110,865	898,957	1,208,868	4,754	1,014	108	11	11	2,537,585
S.L.M.+	4	267	3,151	8,231	3,217	6,605	43,630	26,913	1,300	170	25	1	3	93,570
S.L.M.	128	6,691	145,121	393,956	55,168	88,299	512,215	7,840	7,300	53	61	6	16	1,464,986
L.M.+	8	621	11,450	36,189	6,982	10,414	38,650	9,784	1,461	1,497	25	5	13	1,116,099
L.M.	23	798	20,568	62,183	18,030	62,016	179,554	22,233	2,008	982	110	35	48	368,799
S.G.O.+		47	823	2,801	790	1,662	3,512	1,363	146	39			5	11,188
S.G.O.		201	2,373	5,441	5,837	22,880	30,149	10,466	960	145	4	3	4	78,482
G.O.+		6	64	157	112	499	660	278	19	4				1,800
G.O.	1	60	496	1,777	2,420	5,679	6,996	3,121	202	43	4	6		20,808
Light spotted:														
G.M.		1	22	80	68	55	102	88	30	4				451
S.M.	527	6,264	27,256	30,250	6,292	7,790	19,346	8,706	670	126	2	4		107,256
M.	1,426	24,673	217,844	453,596	36,826	22,747	63,355	34,150	1,989	383	38	1	2	857,092
S.L.M.	499	7,204	110,454	156,196	29,637	32,390	53,271	10,536	1,461	374	35	9	9	402,155
L.M.	101	933	6,183	12,103	9,713	17,325	24,168	6,356	751	273	40	17	19	78,048
Spotted:														
G.M.		2	11	20	3	4	5	2						47
S.M.	26	303	1,184	1,302	369	360	551	280	36	21	4			4,438
M.	282	2,373	8,374	6,140	2,039	1,647	1,414	663	102	38	1	1	1	23,082
S.L.M.	215	763	2,745	3,246	1,299	2,212	1,546	611	123	48	5			12,281
L.M.	69	350	902	1,623	1,445	2,657	21155	641	108	39	2	2	2	10,000
Tinged:														
G.M.		1	1		1	1								4
S.M.	1	20	57	44	23	31	45	20	2	1				244
M.	11	90	180	122	58	74	82	37	1	2				661
S.L.M.	12	80	202	143	59	122	129	44	3					794
L.M.	6	36	69	86	96	146	86	22	2				1	550
Stained:														
G.M.														
S.M.			1	2			2							5
M.		11	8	10	7	10	2							51
Light gray:														
G.M.			9	10	14	31	76	64	5	3				212
S.M.	8	53	654	2,038	1,703	5,544	12,382	6,564	365	55	1			29,370
M.	21	192	1,197	3,214	2,839	6,976	9,909	3,200	225	80	1			27,862
S.L.M.	5	25	277	478	747	2,148	2,106	424	27	16				6,256
Gray:														
G.M.				2	3	2	4	3	3	1				18
S.M.		12	36	98	132	280	357	203	10	2				1,130
M.	7	27	102	249	297	1,168	1,186	290	24	4				3,354
S.L.M.	6	64	232	480	319	631	458	111	14	6				2,321
All grades----	3,738	59,776	627,791	1,399,354	299,719	443,856	2,132,840	2,088,177	28,309	6,288	513	105	139	7,091,661

Source: U.S. Department of Agriculture, Consumer and Marketing Service, Cotton Division.

The CHAIRMAN. Now, many witnesses suggested that the domestic price should not be too closely tied to the export price. How would you feel about a program which made cotton available for domestic use at a price somewhat above the export price, say in the general area of rayon prices, or the price of cotton delivered at foreign mills as the Department recommended last year?

Secretary FREEMAN. Mr. Chairman, I have come to the conclusion that we ought to begin in connection with cotton from a little different approach. That is in terms of what it is going to take to move cotton into foreign markets and to increase our export sales. When we have determined that price, which I think ought to be in the neighborhood of a loan rate of approximately 21 cents a pound, then we would determine how we would accomplish a fair return to our growers. Given the current world situation with the very heavy surplus of cotton, we will not succeed in moving cotton into world markets and protecting our position in world markets unless we get that loan rate down, unless we become competitive in world prices, unless we get the Government out of the selling and pricing business and let the trade go to work in selling cotton around the world.

This is a conclusion based on some 4 years of experience and one that I feel quite confident is accurate.

The CHAIRMAN. Well, now, the Department, as I understand, has not as yet submitted a cotton plan to this committee. Have you any in the offing?

Secretary FREEMAN. I think, Mr. Chairman, that I testified to this committee before, and I will urge its attention to an approach here which, as I say, would involve a loan rate established at a level which will make cotton freely competitive in world markets. I would recommend 21 cents a pound. It would involve some kind of acreage diversion program which would significantly cut our production of cotton so that we can accomplish the objective of getting the carryover down. These are the two musts if cotton is going to continue.

We have got to be competitive in world markets. We have got to get domestic production down. I would start from there. If we do these things, I think that we can rescue cotton from the present critical circumstances. If we don't, I think the days of cotton as an important commodity in this country are numbered.

The CHAIRMAN. Well, now, as I recall, there was abundant testimony offered by the Department last year through Mr. Murphy, who no longer is with the Department, that the plan offered last year would have the effect of reducing the surplus by 1,750,000 bales. That is my recollection of the figure. Have you any assurance now that the program that you are going to—that you are now suggesting would accomplish the feat of reducing surpluses and making cotton more competitive and, may I add, that would give a reasonable return or income to those who produce the cotton?

Secretary FREEMAN. We have had the equivalent of 2 years' experience so that we have a pretty firm idea of what kind of program it will take to move cotton land into conserving uses. The payments and the schedule and the approach in the current program did not

prove to be as attractive as we thought it might be. In part this was because we again had a very sharp increase of cotton productivity and because last year the program got into effect rather late.

We have, however, now checked very carefully and I think of all the cotton people that I have been in contact with, and that is a good many, I have heard no one who has said that the program which has been incorporated by and large in the bill that just passed out of the House committee, that was initially introduced and numbered H.R. 9414, by Congressman Cooley, would not get enough cotton land into conserving uses to pull down the carryover about 2 million bales. No one that I know of has contested that fact. As a matter of fact, they wrote into the House bill finally a limit of 35 percent participation by the individual grower so that there would not be excessive movement of cotton out of production.

We have had a year's experience and we have had a chance to check this pretty carefully and I would speak with some confidence that we would in the program contained in H.R. 9414 be able to bring the carryover down about 2 million bales.

That, incidentally, would mean cutting back about 4 million bales because under the permanent law on the books there would be about a 2½ million-bale excess of production over estimated consumption if new legislation is not enacted. So I do think that we can speak with some firmness about that one.

Now, the other one, about moving more cotton into world markets, is a little more difficult because we do have a vast worldwide surplus of cotton. May I say there is a good bit of talk about such things as variable subsidies and making definite commitments that we are going to export so many million bales of cotton.

Senator BASS. May I interrupt the Secretary one moment there? Where are these subsidies except in the United States? Where are the subsidies? I mean, surpluses? Excuse me.

Secretary FREEMAN. There is quite a bit of cotton that is rattling around the world right now, Senator Bass.

Senator BASS. Where is most of it produced?

Secretary FREEMAN. There is a good deal of cotton produced in Mexico, which is a main producer, Brazil, Colombia, Peru, a number of Central American countries, Pakistan, India, Turkey, Syria, Greece, Sudan, Egypt, and Uganda. There is a lot of cotton produced in different places around the world, including Russia and China.

Senator BASS. There is a world surplus, then. Take the U.S. surplus out, and there still exists a surplus of cotton on the world markets.

Secretary FREEMAN. If we didn't have any cotton at all in surplus amounts, I believe that is correct.

Senator BASS. Let me ask you this question.

Secretary FREEMAN. I would have to check to be sure.

Senator BASS. If we exported no cotton at all from this country, would there be enough cotton produced in the other countries to supply the world's needs?

Secretary FREEMAN. Yes. I think there would be.

Senator BASS. That is all.

The CHAIRMAN. There was only one more question I would like to ask you, Mr. Secretary.

Secretary FREEMAN. Maybe I could finish, Mr. Chairman, what I was saying. Could I?

I think I left hanging in air just this, that there have been long and detailed discussions with people about what we can do about cotton, which is the one commodity that is in serious condition today. The rest are in pretty good balance as it stands now. And there have been suggestions of variable fees and commitments that we are going to, regardless of the cost, sell given levels of cotton. But as each of these is analyzed, it is found wanting for the reason that there is available in the world excessive supplies of cotton.

What we need to do in my best judgment is to get into a stronger position at a lower price level and in effect serve notice that we are prepared to move cotton at a lower cost around the world to discourage perhaps some of the high-cost cotton produced in some countries and to discourage the bringing in greater production of cotton in other countries. We are not going to do that overnight. We are not going to do that in 1 year. This is going to take a sustained long-term program to accomplish.

The CHAIRMAN. Well, complaint has been made by several witnesses that the policy that the Department of Agriculture has followed in the past in fixing the price which cotton is to be sold at in advance at the beginning of the year has made it possible for foreign growers to undersell us all the time, and I am wondering if it were not possible to devise some ways and means whereby the cotton can be sold at a price wherein they wouldn't be able to tell what their price would be until you have a competition in the market between us and those who produce abroad.

Secretary FREEMAN. Frankly, Mr. Chairman, I don't think so. I have given a lot of thought in connection with this and as I think I suggested earlier, as soon as you injected this level of uncertainty into world markets, which is argued by those who talk about a variable subsidy, you immediately would create conditions under which no inventory would be carried at all. Every processor in the world would run his inventory down as low as he could. He would wait as cotton continued to pile up knowing it is already in surplus. He would just outlast those who hold that cotton until finally it would be sold at fire-sale prices. You would end up with the Government being entirely in the cotton business and the trade being out of the cotton business—a completely unhealthy situation.

You would give the Government complete monopoly on exports and put the trade out of the business, and I don't think that is good business.

The CHAIRMAN. Well, the trade complains now that you put them out of business, so it would seem to me that to offer real competition and be able to dispose of our cotton, we ought to be in a position to sell it at world prices and not fix that price in advance so that our competitors can sell under us. Now, that is——

Secretary FREEMAN. Mr. Chairman, the surplus cotton in the foreign world today is in the main going to move to consumption because no other country that produces cotton has adequate storage facilities and all of them are under such heavy pressure for dollar balances in any event that they are going to sell that cotton.

So whether we like it or not, with the world in surplus, we are a residual supplier and they are going to keep on selling no matter how far down it goes and they are going to sell, and sell it under us. As for the results, I don't think there is very much we can do. If we wanted to drop the world price to 15 cents, which I think would be totally impractical for both economic and political reasons and would cause international chaos, they would still sell cotton—we might be able to get into some markets as this business went on of seeing how fast we could drop the price and then how fast we could rush the cotton into various markets. This would result in a tremendous cost to the United States and it would also result in a tremendous disruption of world markets.

The CHAIRMAN. Any further questions on cotton?

Senator JORDAN. Mr. Chairman, I might ask——

Senator BASS. I would like to discuss the cotton program generally in quite a bit more detail, Mr. Chairman, but——

The CHAIRMAN. Well, let us go and vote. Excuse us again, Mr. Secretary.

(Whereupon, a recess was taken.)

Secretary FREEMAN. Mr. Chairman, may I answer Senator Bass? I checked and I made a misstatement of fact. I knew that the world production and world consumption were moving very close together. They have not yet actually matched for 1964. Foreign free world production is 22.4 million bales. Foreign consumption is 24.9 million bales. That is about two and a half million bales short of foreign production equaling foreign consumption. But our projections are that they will meet and overlap very shortly unless this country is in a significantly improved competitive position over that we enjoy today.

Senator Bass. In other words, what the Secretary is saying, then, there actually is now in competitive prices with us keeping the umbrella over the top of the price and being undersold at the world market, there is actually only two and a half million bales of export cotton available to us under our present program.

Secretary FREEMAN. That is correct.

Senator BASS. Now, I would like to go into some detail for my own edification into the so-called Cooley bill or the House committee bill as passed.

Under that bill, am I to assume that this is having at least the nominal support of the Department? Is that——

Secretary FREEMAN. Yes.

Senator BASS. All right. Under that bill, how much would the acreage be reduced by?

Secretary FREEMAN. The acreage would be reduced according to the choice of the grower up to 35 percent maximum.

Senator BASS. Up to 35 percent maximum?

Secretary FREEMAN. And that would be subject to his voluntary desire.

Senator BASS. What is the mandatory cut?

Secretary FREEMAN. The mandatory cut to get into the program would be 15 percent.

Senator BASS. Fifteen percent, and then optional reduction in acreage, then, up to 20 more percent.

Secretary FREEMAN. Up to 20 more percent, that is correct.

Senator BASS. All right. What is the support price going to be under that program?

Secretary FREEMAN. Twenty-one cents.

Senator BASS. Twenty-one cents?

Secretary FREEMAN. Yes, sir.

Senator BASS. Then under that program you would have a compensatory payment to the farmer in lieu of a support price of what?

Secretary FREEMAN. There would be a payment to the farmer who cooperated in the program—a combination of a 9-cent payment under the bill passed by the House and a payment for acreage diversion at a level of 50 percent of the loan rate times the projected yield of the acres retired from production.

Senator BASS. You mean both payments?

Secretary FREEMAN. Yes. It would be combined into one payment.

Senator BASS. Combined into one payment.

Secretary FREEMAN. Nine cents on the domestic acreage allotment plus 50 percent of the support rate times the yield of those diverted acres.

Senator BASS. What would that amount do to cotton acreage in Tennessee where we are producing, say, an average of a bale an acre?

Secretary FREEMAN. Let's see. It would be——

Senator BASS. Nine cents a pound is \$45 a bale.

Secretary FREEMAN. The best way I think to put this would be that there would be for the producer who reduced 35 percent, the maximum under the program, a blend price for his production of about 36 cents a pound.

Senator BASS. Thirty-six cents a pound?

Secretary FREEMAN. Yes. The producer who complied with this program would be in a better net income position than he was this year.

Senator BASS. What about——

Secretary FREEMAN. In Tennessee or anywhere else.

Senator BASS. What about the acres taken out of production?

Secretary FREEMAN. They would go into conserving uses and would not be used to produce any other crops except possibly some very minor crops such as castor beans, flax, et cetera. They would go into conserving uses.

Senator BASS. Now, what happens to our tenant farmers?

Secretary FREEMAN. Well, in this instance I think the tenant farmers would receive their appropriate share from the owner and producer as they have been receiving under the current program. In other words, the net income that is going to go to the producers is going to be more, not less.

Senator BASS. Well, yes; but we have in Tennessee, Mr. Secretary, in the west Tennessee area, where you have been, where most of our cotton is produced, we have one congressional district there which I think is third from the lowest in median income in the United States. This is our major cotton-producing congressional district. And——

Senator JORDAN. Is that on the river?

Senator BASS. On the river, the Mississippi River. And if we reduce our cotton acreage, let us say we don't go to the maximum, if we reduce our cotton acreage by 20 or 25 percent we are going to have an

employment situation there that is going to create new poverty and put more people out of jobs, and I don't know what we are going to do with them.

Secretary FREEMAN. Well, in this instance these people will cut back their production just as has been done under the wheat program, as has been done under the feed grain program. In this case it would be done under the cotton program. They would continue to cultivate and to produce cotton, but they just wouldn't produce quite as much for a few years until we got this carryover down, but the payment to them for not producing would be such that their net income would be increased, not decreased.

Senator BASS. But we are still going to be in a position where we are going to have empty hands, not doing anything to produce income because—producing cotton and working in the cottonfields is the only type of work that these people have and when we cut the acreage, if we have got three tenants on a farm, we are going to cut them down to two.

Secretary FREEMAN. The income would not be affected in this instance.

Senator BASS. The income to the farmer wouldn't be affected but—for the first year. This may be true. It wouldn't be affected. But you are going to find another vacant tenant house on the cotton farm next year and another one the next year, and we are going to have a bigger pocket of poverty in these areas where we have cotton production today than we have now if—

Secretary FREEMAN. Unfortunately this is an adjustment that has been taking place in a number of areas in connection with smaller and smaller tenants. We don't want to expedite painful changes that are taking place but we are faced with a very practical problem. What are we going to do when we are producing 1 million bales or more cotton every year than we are able to move into the market? And what is the fairest and most equitable way all across the board to get production back into balance as we have some other commodities? I submit to you that so far we have not been able to develop any way which will meet this problem on a fair and equitable, economically sound basis any better than the proposals incorporated in the bill that was voted out of the House committee today.

Senator BASS. How much more cotton did we produce last year than we used?

Secretary FREEMAN. Around 1.3 million bales. We estimate that under the act of 1958, to which we would revert if nothing is done, even with backing skip row planting, we would still produce about two and a half million bales more cotton than we would be using.

Senator JORDAN. And being able to sell abroad.

Secretary FREEMAN. Yes. The trouble is that this year we are going to produce as much cotton as we did in 1951 on 13 million more acres.

Senator BASS. What if we extended the present program in some form and tried to put in some new legislation to step up our export markets? What would happen then?

Secretary FREEMAN. I don't think that we are going to be able to step up our export markets no matter what we do that is at all

consistent with any reasonable budget deadlines sufficient to absorb 2 million additional bales of cotton next year. If we saw fit to move to, let us say, 15-cent cotton around the world, which would mean a cotton program that would cost us about \$1,250 million and would thoroughly disrupt world markets, it would have some international political repercussions that would be grave. We might conceivably move 7 million bales of cotton. But I think that either one of those is not within the realm of practicality and what we have really got to do is not have a fire sale around the world but get our house basically back in order, and frankly, having sweated with this one for a long time, it is going to be a painful process. We simply have got to cut back our production about 3 million bales in order to eliminate the 2½ million bales additional production and to cut the carryover another 2 million bales which means we are going to have to cut cotton production about 4 million acres one way or another for about 3 to 4 years and get on a sound basis internationally to increase our exports to 5 to 6 million bales, hopefully have a domestic pricing system that will expand our domestic consumption to close to 10 million bales, and get back to 15 or 16 million bale consumption, foreign and domestic, which it will take us 3 to 5 years to do, and by the same token, have the tools so that we will be able to contain our production within those limits and make the appropriate adjustment.

Senator BASS. I have an idea that I would like to have your opinion on, about how to increase some domestic consumption of cotton in the United States, and I think it is vitally needed.

We have used the program for other commodities and to meet other needs and we have all of our programs to give luncheons to our children in school and we have the poverty program to help them go to school. We give them the stamp plan and give them their lunches, but we have got a lot of people that every year in my area don't have enough clothes to wear. They can't keep warm in the winter.

Why don't we get a stamp plan to give some people some clothes to wear and use some of our domestic cotton for that?

Secretary FREEMAN. I think that might have some possibilities, Senator.

Senator JORDAN. You would throw in a sewing machine, too, with it.

Senator BASS. Well, I will go along with that so long as that sewing machine is produced in the United States by American labor. I will go along with that if they will make it. I will tell you, when I went to school I wore a lot of them made on a sewing machine at home and was damn glad to get them.

Senator JORDAN. Did they have a cow's head on the back of them?

Senator BASS. You are talking about store bought clothes now.

Senator JORDAN. No. I am talking about feed sacks.

Senator BASS. We used those for underclothes.

But I am talking about a realistic program that could be devised and worked on to increase the domestic consumption of cotton and at the same time provide a service for people that we may be feeding—we may be feeding some of them now, but there are a lot of them I

know that—I heard a story at home which was told as a true story and was absolutely the truth where there were two children in the family and they only go to school every other day because they had to change clothes and shoes. They didn't have shoes to wear and clothes to keep them warm when they went to school.

So I am suggesting maybe that the Secretary might give some thought to this and using some of our domestic cotton production in the United States. We have been subsidizing the mills. This is all right. That is fine. And I don't oppose it as long as it helps in keeping the cotton farmer from going under. But I can foresee the possibilities as you stated a few moments ago, if we don't do something to keep the cotton farmer in production, it is going to be a sad day for him in the next few years and I don't want to come in here and recommend a program, and I can't vote for a program, and properly do the job that I should for the people of Tennessee by recommending a 35-percent reduction in cotton acres to my people down there when I am at the same time casting votes right on the floor of the Senate today to subsidize rent for people who live in the metropolitan areas that can't afford to pay their rent, and when I am representing a district that is a third from the lowest in the United States.

And some of our counties have countless numbers of people who live in tenant houses there that don't have a good roof on them and if they don't have a job to do, and the only thing they know how to do is produce cotton, and if we don't let them grow cotton in this area, then they are going to become wards of the government and it is going to cost us more than this \$700 million that we are talking about in order to keep them alive and to make any kind of citizens out of them.

So these are the things that disturb me with a program that is being recommended by the House bill, to continue to reduce acres.

Now, I want to go a little further. I know this. I know that in certain areas down there we can produce sugar. We can produce sugarbeets in this very district that I am talking about. And yet we are subsidizing foreign sugar, bringing it into the country and buying foreign sugar when our farmers in my own State could be producing sugarbeets and we could be using the talents, the soil and the production to produce a commodity that is in deficit in this country. We are a deficit producer of sugar. I think that this is something that could be done and I would hope that a lot of attention will be given to that. Although this committee doesn't handle sugar legislation in the Senate, it handles it in the House and the Secretary is conversant with the problems we have. I would hope that certainly if we are going to start cutting the production of some of the commodities that we will move something in to replace it so that these people can have jobs and so they can have incomes.

I know the Secretary was not here then, but back in the early 1950's, even before I came to the Congress, we started sending cotton acres to the other States that never had produced cotton, nonproducing States. In my opinion that is what brought about the surplus. It appears to me that we are in trouble. We might start cutting back somewhere where we started to create the problem.

But I just, Mr. Secretary, don't see how I can possibly support legislation which would in the end have the effect of eliminating a lot of jobs in my own State and put a lot of people on the welfare rolls

and make them nonproductive that are now in the process of producing a commodity that is of vital importance to the country.

Secretary FREEMAN. Senator Bass, may I comment first that the bill approved by the House committee today provides quite specifically that the Secretary shall provide adequate safeguards to protect the interests of the tenants and sharecroppers, including provision for sharing on a fair and equitable basis in price supports under this subsection.

Now, the fact of the matter is that we are faced with not the present alternative, kind of, you know, like James Thurber is alleged to have said when someone asked him one day, how was his wife, and he thought a minute and scratched his head and said, "Compared to what?"

So we are kind of on the spot here of trying to consider some alternatives that may not always be completely desirable. We know that we face a heavy overproduction of cotton. The same contentions that the community is going to dry up, that we are going to destroy its economic base, have been made about the wheat program. They were made violently about the feed grain program. They are being made primarily now by some people relating to the actual sectors of cotton and this does create a problem. But I submit to you those same people are going to be a lot better off with a program that gets our cotton economy in balance than by continuing down a road that can only have disaster at the end.

Where our producers are concerned, their income is adequately protected. Actually it is strengthened under this program and they will be given, if you will, perhaps an opportunity to develop new skills.

Senator BASS. How much further is it going to cost?

Secretary FREEMAN. The program is going to cost in the neighborhood—our target has been in the neighborhood of \$600 million. Precisely what it is going to be at this point, until we have costed out some of the things that are in this program——

Senator BASS. How much cotton would \$600 million buy?

Secretary FREEMAN. It depends upon what the price of cotton is in the market.

Senator BASS. At a price—let's say we are pegging it at 29 cents. At \$150 a bale, \$600 million will buy how many bales of cotton?

Secretary FREEMAN. What does that come out to? Four million. That is about what we are putting——

Senator BASS. Buy it and put it in clothes and give it to some people and we will be better off than spending \$700 million. Buy \$4 million worth to produce clothes and we will be better off than paying \$700 million not to produce.

Secretary FREEMAN. The trouble is only a very small percentage of the cost of clothes is represented by the cotton in them.

Senator BASS. Take the other \$300 million and put them together. Create some more jobs in the factories.

The CHAIRMAN. I think we ought to argue all those questions on the Senate floor. I wonder if there are any more questions as to cotton?

Senator BASS. I am afraid I am going to be dead before I get there, Mr. Chairman.

Senator JORDAN. Mr. Chairman, may I ask the Secretary a question?

Mr. Secretary, I realize that we have got to do something to cut our production of cotton. We can't spin it, weave it, and sell it abroad. That is very evident. And I am sure if we reduce the price, it would move some more but not enough to get us out of our problem here.

But it is necessary from a price standpoint to keep cotton priced at a place where the synthetic fibers won't keep gaining on cotton which this program this past year went a long way to do. I think it is easy to prove that.

I am a little fearful that you are—that this bill that came out of the committee in the House—may cut cotton back too much. I think there ought to be a floor under this, say you can cut back only so much. Although there is a great deal of cotton in the warehouses, it is well known that nobody wants a great big percent of that cotton. It is not spinable, usable. It has been there 7 or 8 years, as we all know. Your records will indicate that. A great deal has been there 5 years. It has been picked over and picked over and picked over.

Would you be willing to put a floor under this? I am afraid if you put a 36-cent incentive on all of this, you may get a lot more land taken out of production than we would need to take out to bring this program in better balance.

Secretary FREEMAN. Well, I am sure this committee, under the chairman's direction, will carefully review the figures on this but in order to bring down the carryover about 2 million bales a year, it is our best estimate that we are going to need about the level of cutback that is involved assuming a figure of close to 30-percent compliance. Now, there is a maximum compliance of 35 percent.

Senator JORDAN. Right.

Secretary FREEMAN. So the impact on a given community would not be so much as to carry out the very proper concern that is reflected by Senator Bass. I think that these various communities can live with the 35-percent cutback. It is going to adversely affect some segments of the economy but the money is going to be there. The money is going to go to the grower.

Now, if 35 percent is too much, we can always take a look at that. Maybe it ought to be 30, but if it is going to be 30, then it is going to take a longer time in order to get the carryover back down to a reserve rather than a heavy surplus category. Maybe you want to do this in 6 years instead of 4 years. I think that will be a matter that you will want to review carefully and I will be happy to take another look at it.

The CHAIRMAN. This might be a crude way to do it, but why not make a big bonfire out of what we have instead of following the process being advocated?

Secretary FREEMAN. Well, on occasion it has been suggested that—

The CHAIRMAN. It would be cheaper.

Secretary FREEMAN. I guess we have destroyed pigs, plowed under corn—

The CHAIRMAN. Make a bonfire.

Senator BASS. What does it cost to store it?

The CHAIRMAN. 40 cents a bale per month.

Senator BASS. 40 cents a bale per month?

Secretary FREEMAN. Per month.

Senator BASS. Per month; \$4.80 a year per bale.

The CHAIRMAN. Right.

Off the record.

(Discussion off the record.)

The CHAIRMAN. The committee will come to order, please. We will now go off the record.

(Discussion off the record.)

WOOL

The CHAIRMAN. We will now take up wool. Why didn't the Department consult with the industry before proposing a change in the 300-million-pound goal in the policy statement of the Wool Act and propose the graduated support level for wool?

Secretary FREEMAN. The target was discussed with the industry as were other matters in the bill. The decision to recommend some graduated payments was arrived at shortly before the introduction of the bill and there was not time to review that matter with the industry.

The CHAIRMAN. Is that the only portion of it that you didn't review with them?

Secretary FREEMAN. That is my best recollection. We make it a policy to try and review with the industry wherever we can, but we certainly don't feel bound not to make a recommendation to Congress until we have discussed it with industry representatives. That is between Congress and the executive branch of Government.

The CHAIRMAN. Now, why is it that you are desirous of removing that goal of 300 million pounds of wool production?

Secretary FREEMAN. We think, Mr. Chairman, that is an unrealistic goal, one which we haven't even come close to meeting, and that it is just a better practice to establish a goal which is more realistic.

The CHAIRMAN. Since flocks of sheep are sidelines to other farming operations, will the proposed scale of payments really help small wool-growers?

Secretary FREEMAN. Yes, it will. There would be a graduated scale of payments and they would represent amounts of money that would be meaningful for the small growers and by the same token, would not mean any cut in the payments to the large growers. So this would be one instance where everyone ought to be winning, but yet there are some people that seem to want to lose.

The CHAIRMAN. Has the wool program been generally satisfactory?

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. In view of the industry opposition to the Department's amendments, does the Department still feel that amendments proposed by it are essential, and if so, why?

Secretary FREEMAN. I think they are not perhaps essential, Mr. Chairman. It was the Department's feeling that more income could be obtained for the smaller growers in this fashion without taking any income away from the larger growers and this would be in the national interest as well as that of the smaller woolgrowers.

The CHAIRMAN. What is the Department's view on S. 2161 introduced by Senator Bible to require an increase in the wool support level above the 62-cent level by the same percentage as the increase in the parity index from 1958-60 average to the latest 3-year average?

Secretary FREEMAN. As the Senator's question made clear a moment ago, by and large the wool program has worked quite satisfactorily. There has been a reasonable amount of discretion delegated to the Secretary of Agriculture so he could adjust to changing circumstances. I believe that discretion has been properly used.

This provision would result in some inflexibility, so we would not be able to respond to changing circumstances in the market. And I believe that this would be to the detriment of the woolgrowers themselves.

(Additional statement filed for the record on wool, is as follows:)

PORTLAND, OREG., July 7, 1965.

Senator MAURINE NEUBERGER,
Washington, D.C.:

The Western Wool Handlers, representative of all the large wool buyers of the Western States, strongly supports S. 994 extending Wool Act with amendment S. 2161 and opposes the wool provisions in the farm bill. We urge you to work for the approval of this choice. Request this be made part of hearing record of Senate Agriculture Committee.

HAROLD G. RUSSELL, *President.*

TRANSFER OF ALLOTMENTS

The CHAIRMAN. On transfer of allotments, will you kindly tell us the advantages in the Department's request for authority for the sale and lease of allotments.

Secretary FREEMAN. The purpose of this is so the——

Senator BASS. You are talking about cotton now, aren't you?

The CHAIRMAN. All allotments. That is in the proposed bill. It affects all allotments.

Secretary FREEMAN. There are many units of inadequate size in this country and many farmers, particularly young farmers, who wish for additional allotments, so they can have an adequate sized efficient unit. There are many people not using their allotments or who would wish to move to some other kind of activity and might be able to do so if they could finance it at least in part.

So the transfer of allotments would serve to meet two needs. Under proper control, so that it would not be speculated in and there wouldn't be concentration in just a few hands, it would make it possible to have more adequate sized family farms with units where people could make a decent living, make it possible for some people who would prefer no longer to plant the commodity in question to have some resources to help them get new training or new kinds of jobs and activity.

The CHAIRMAN. Now, what effect would this have on release and reapportionment?

Secretary FREEMAN. I don't think it would have any particular effect on release and reapportionment except many people today getting released and reapportioned acres would undoubtedly buy those allotments and in that fashion would have permanently a viable economically adequate size unit.

The CHAIRMAN. Well, it is not your objective to strike from the law, then, the release and reapportionment that now prevails.

Secretary FREEMAN. No. As a matter of fact, this would supplement it and most of the people receiving release and reapportionment support this.

Senator BASS. May I ask a question along that line, a real quick one? When you talk about assisting a man to build up a family-sized farm to give him allotments, all right, I would go for that. But what about a man, say—we say today—take a man that has 100 acres of cotton. Would you allow him to buy another hundred acres of cotton?

Secretary FREEMAN. As the matter now stands, at least in the House bill, they put a limit of 100 acres on it.

Senator BASS. If he has more than 100 acres, he cannot buy a new—cannot buy any more allotments?

Secretary FREEMAN. That would be the limit to which he could buy. I think that may be a little small figure. As the bill was submitted by the administration, it left this to the discretion of the Secretary—it would depend upon the area and I think this would be sounder. I would not want one producer to control all the allotments.

On the other hand, you would want to have a distribution within a given area that would be sensible.

The CHAIRMAN. Well, I presume——

Senator BASS. 100 acres is a pretty good sized family farm cotton allotment, Mr. Secretary, and I would have to say that would be a maximum that I would vote for.

Senator JORDAN. Mr. Secretary, may I get that straight in my mind? You are talking about—that he couldn't increase his reapportionment above 100 acres.

Secretary FREEMAN. That is right.

Senator JORDAN. If he had 90 acres of cotton, in his own allotment, he couldn't take more than 10 acres.

Mr. JAENKE. That is right.

Senator JORDAN. This wouldn't have anything to do with the man who has a 10-acre allotment. Then he could take 90 and go up to 100. That is the maximum, 100, reapportionment.

The CHAIRMAN. I would suggest to Senator Bass that there ought to be some kind of limitation on this and I presume——

Senator BASS. Absolutely.

The CHAIRMAN. I presume that you wouldn't object to such limitations as may be agreed upon by the committee.

Secretary FREEMAN. No; I think the committee would undoubtedly make a contribution here. I can assure you that it would be my intent if there were discretion allowed to have a reasonable and workable level and it would vary according to different commodities and might very well vary according to different areas of the country.

Senator BASS. I would say also, I would like to say there is a maximum amount that a man could sell. I would hate to see a man go out and accumulate from the 15-acre cotton man, the 20-acre cotton man, and so forth, and then bunch it all together in 100 acres and then he could double his money because a 100-acre allotment is worth twice as much as 10 10-acre allotments.

Secretary FREEMAN. There are provisions to prevent speculation. One requirement is that a man who buys allotment for a farm cannot sell allotment from the farm for a period of 3 years.

Senator BASS. I think there ought to be a maximum on what a man—if a man owns over 100 acres, he couldn't sell his allotment because if you don't, you are going to have him dividing it up, having 10 people coming in and buying allotments.

I was laughed at when I made this proposal before but I think we would probably save money if the Department would just buy these allotments themselves and retire them and then sell them back to some small farmer if he needs them.

Secretary FREEMAN. This is in the House bill.

Senator BASS. It is.

The CHAIRMAN. On cotton only.

Senator BASS. Well, that is really the only thing I was talking about except it might also work in tobacco, but cotton—I think specifically you could do this in cotton. I think it would work very well.

CROPLAND ADJUSTMENT

The CHAIRMAN. All right. I have a few questions to submit on cropland adjustment program.

At your earliest—at an early appearance before the committee you outlined the manner in which cropland adjustment program would be administered and questions were raised how you would treat farm that had no allotments and other matters.

Have you in the light of the hearings made any changes in your proposed administrative policy?

Secretary FREEMAN. I think we would want to call to the committee's attention the fact that we would be a bit more flexible in relation to this than might have been indicated in our earlier testimony.

There may very well be some instances where land that might not have a history of a crop under allotment, such as the kind referred to by Senator Holland, but yet would have a definite need and use, for example, in recreation, where we might well participate with a local unit of government to accomplish the movement of that land into a new use, that the value of the land would be based upon what it is worth and that would be much less than would be the case for most of our allotment crops.

The CHAIRMAN. Well, would you advocate a program similar to the one we now have on the statute books wherein the limitation is \$10 million to be used each year by increasing that instead of the program that you are now proposing? As an alternative?

Secretary FREEMAN. I believe that the program that we have in mind here has some features in it which are essential if we are going to get the volume of cropland which we have in mind under the cropland adjustment program. The cropland conversion program supplements it. It targets specifically moving land into definite uses, into alternative uses, and as such it performs a very important purpose. It has been a very important pioneering tool, but it is not adequate to accomplish the total job of moving 40 million acres into reserve as we hope will be done by the CAP.

The CHAIRMAN. Well, as you know, there has been quite a bit—there was quite a bit of criticism about former soil bank programs.

Secretary FREEMAN. Yes, sir.

The CHAIRMAN. And the charge was made that some landowners, speculators, bought land and hadn't the means to pay for it. Don't you think it might be a good idea to put a limitation in the bill as to—not a limitation but put a provision that the landowner would have to have the land for at least 5 years before paying the payments out.

Secretary FREEMAN. Yes. I think something like that might be very appropriate.

The CHAIRMAN. Now, under the administration proposal you have authority to reserve allotments and base history on lands going into CAP. What will you do with that authority?

Secretary FREEMAN. Well, I think we probably should provide that land goes into the CAP would have its history protected. Otherwise it will curtail the participation in the program.

The CHAIRMAN. Now, would you have it so that at the end of the participating period, he goes back to the production of crops that he formerly grew?

Secretary FREEMAN. As it now stands, yes. That history will be protected and he would be able to use it as he does now under the construction reserve when it runs out.

The CHAIRMAN. Now, Senator Nelson recently proposed an amendment to the CAP section providing for wildlife service payments and wildlife advisory board. What would that amendment do and what is your position on it?

Secretary FREEMAN. This amendment, as I understand it, had two parts. One was to provide for an advisory committee, both national and in the States, to work with us in trying to move some of this land into recreation and conservation uses. I think this is an excellent proposal and we would welcome it.

It is my understanding that he also proposed that the funds under this program should be turned over to the States. I think that this probably is not sound but these funds could be better administered as we currently do through the local committees in the ACP program. It would be more efficient to do it that way with adequate advice and counsel and close cooperation with the State game and fish people.

The CHAIRMAN. To what extent do you think you would have cooperation?

Secretary FREEMAN. I think we would get very enthusiastic cooperation on this program. This would merely be doing it on an expanded scale. We are moving some of our ACP payments into game and fish and wildlife uses. It has been done in Minnesota, in the Dakotas, for example, where we have a good bit of land that can be used for birds, pheasants particularly. We have had very enthusiastic local cooperation.

The CHAIRMAN. We now come to the dairy program.

Senator MILLER. Mr. Chairman, could I ask a question on this?

The CHAIRMAN. Yes.

Senator MILLER. Mr. Secretary, at page 43 of your proposed bill, at the bottom it says the total acreage placed under contract in any county shall be limited to the percentage of total eligible acreage in such county as the Secretary determines would not adversely affect the economy of the country. Would you have any objection if that read "county or community area"?

Secretary FREEMAN. No.

Senator MILLER. I am sure you recognize that there are some areas where a limitation on the county might adversely affect or not protect a community area.

Secretary FREEMAN. No. That would be very welcome.

Senator MILLER. Thank you.

And the second point is would the bid procedure which you and I discussed earlier today, would that not be permitted in here all right?

Secretary FREEMAN. Yes. We would propose to try the bid procedure on a limited basis to see if it works and if so definitely use it.

Senator MILLER. Thank you. But it is not provided for in here.

Secretary FREEMAN. No.

Senator MILLER. In the present bill.

Secretary FREEMAN. No; but we know this would be our intention.

Senator MILLER. Along the language I quoted earlier today, would that be satisfactory?

Secretary FREEMAN. Something like that would be in order.

Senator MILLER. Thank you.

DAIRY PRODUCTS

The CHAIRMAN. We now come to the few questions we would like to ask pertaining to dairy. I know that Senator Mondale is very much interested in this and I would like to submit this question that Senator McGovern has introduced a bill, S. 1838, where he proposes that the Department purchase dairy products at market price for domestic and foreign donation.

What is the Department's position on this?

Secretary FREEMAN. The Department is currently very carefully reviewing the total picture of the kind of food availabilities and their nutritional qualities as a part of the food-for-peace program. We have not taken an official position on it. I think that authority of this kind would be very helpful and useful so that we could plan ahead for little longer periods with some of the receiving counties, particularly where the school lunch program is concerned. We wouldn't then be subject to the fluctuation of production and market changes which sometimes take place quite rapidly, and we have found ourselves several times in the position where we have gone within a year from a strong surplus position to a position where we are not able to meet the commitments that we had made as a part of the school lunch program.

So some kind of provision so that we could have a little longer planning on this I think would be very constructive and helpful.

The CHAIRMAN. I imagine this program would be very costly and might encourage the production of more milk and dairy products. What are your views on that?

Secretary FREEMAN. Well, I think it would all depend on how it was drafted and how it was administered. It would have some tendency to move up the costs of dairy and this—I know the chairman would agree—should be done so those producers would get a stronger price. But I think that such a program could be administered with minimal cost and give us a great deal more flexibility in carrying out a program which is sound.

The CHAIRMAN. Although I am still of the opinion that the Secretary can under the present law have a class I base program, yet we

have legislation suggesting that that be done. I would like to have you state your views as to such a program.

Secretary FREEMAN. Well, I think the chairman's proposal in this respect in the bill you have introduced providing for class I base excess program, would be a contribution to an improvement of our dairy program.

The CHAIRMAN. Do you think that this program would have the tendency of raising the prices of fluid milk?

Secretary FREEMAN. Not necessarily. I think it would help a little bit in overcoming the surplus in some areas and strengthen producer income in some areas. I would hasten to add that it doesn't represent a solution to our dairy problem—and the chairman has said this before—but it would be, I think, an improvement.

The CHAIRMAN. Senator Mondale, I understood that you desire to ask a few questions as to the program.

Senator MONDALE. Yes. Mr. Secretary, I know I don't have to recount the problems that our milk producers have had in Midwest. Indeed, I think that in your testimony at the outset of these hearings, you pointed out that the dairy farmer is perhaps the worst off of all of our farmers.

I was happy to see some improvement in the returns to our dairy farmers, in 1964 over 1963 but I think it still is very low. I am pleased to see the reserves of butter and powdered cheese are no longer burdensome. Indeed, I think, they are below in every case, the recommendations for national reserves.

Now, there is a great deal of discussion about this proposed class I base program and I see that the House bill, as recommended by the House committee, incorporates the so-called Poage bill. Following the Lehigh Valley case, there has been I think a very healthy development in terms of the intermarket movement of milk. As a result, milk now moves between markets into an order market easier than it did, easier than it could before.

I am worried about the restrictive features of a class I program. I must say there are certain parts of it that I think could have an appeal if we can get away from the blend price, that we might take off some of the incentive for increased surplus production. But I am afraid that there is built into the class I proposal, at least, as we see it in the House and some have testified here in the Senate, an exclusionary provision that will have the effect of eliminating all of the encouraging interstate marketing of milk that has come about since the Lehigh Valley case.

I would like to ask you a few questions along those lines, if I may.

Would a class I base plan be administered to divide fluid milk sales among "producers" under the order at the time of the adoption of the plan or would new sources be permitted to come in freely?

Secretary FREEMAN. I think new sources could be permitted to come in freely under the bill that has been before the Senate. I think they would not be permitted to come in freely under the bill that has passed the House.

Senator MONDALE. Will new producers of outside milk be able to enter the market and receive its full class I value without first having to earn a base during some specified production period?

Secretary FREEMAN. The answer is the same as to the previous question.

Senator MONDALE. In other words, your understanding of the Senate version as we now see it is that outside milk could come in freely and earn a class I base and receive a class I price.

Secretary FREEMAN. Yes, that is my understanding. Under the Senate bill, both new producers and those who have been in the milk business but not in a given market can come in and get a base in due course as well.

Senator MONDALE. Now, can an outside milk producer ship class I milk into the milk market order area?

Secretary FREEMAN. Under the Senate bill, yes.

Senator MONDALE. And sell it in the first instance for class I price?

Secretary FREEMAN. That is my understanding.

Senator MONDALE. Well, now, what bothers me about this is that as I understand the class I program, it will be essentially constructed as follows. There will be some study made of the traditional demand for class I. Then the class I demand will be allocated among the traditional suppliers of class I and each will be allocated a class I production base. Then the handlers in effect act as a conduit, take the money from the sales and return it to the farmers. But if in addition outside milk is able to come in and receive the class I prices, it seems to me that by that fact you are dislocating part of the traditional market upon which the whole basis of the class I base system is structured. You are dislocating part of the demand. Where are those who have been allocated bases going to get their money?

Secretary FREEMAN. I cover that by saying it would be no different than it is now in any milk market order where someone can come in, and does, and what keeps them from coming in is either local sanitary regulations or transportation cost differentials. So there would be no difference between the application under this provision under the base excess plan than there is under the operation of the milk marketing orders now.

Senator MONDALE. Would you have any objection to the amendment of the class I plan that would clearly write in your understanding of its operation; that is, the Senate version, to provide that the full impact of the Lehigh Valley case is not intended in any way to be modified and that outside milk can come in and receive a class I price at the outset without any discrimination or period during which they get the manufactured milk price?

Secretary FREEMAN. I have no objection to a clarification that will continue the same treatment of outside milk as is presently provided.

Senator MONDALE. One final thing. Mr. Chairman, would there be any objection if I propound a few questions to the Department on the record concerning some of the refinements of the operation of a class I milk market order for them to answer on the record?

The CHAIRMAN. That will be perfectly all right provided that the answers are made available, let us say, by the middle of the week at the latest, because we have to have all this record printed before we go into executive session in the hope that we might be able to provide legislation for consideration during this session of Congress.

Senator BASS. Mr. Chairman, may I make one brief question or statement and then I am all finished for the Secretary.

Back to the cotton thing. I have one other suggestion. The Defense Department, of course, is one of our biggest purchasers of all goods and services in the country. Since we have a surplus of cotton and we have a real problem, let me suggest that the Secretary have some member of this staff go to the purchasing department of the Defense Department and see if there is any way that they could step up the use of cotton instead of synthetics in some of the apparel and other things that they are buying? We do this with meats and with other things in the Defense Department. So let me suggest that we have an emissary go to the Department of Defense and see if they can use further cotton goods that they are not using now in that area. Would you do that?

Secretary FREEMAN. I think that is an excellent suggestion. I will be pleased to do that.

The CHAIRMAN. A while back, in response to a question asked by me, you stated that the class I program would have the tendency of increasing the price of fluid milk. Did you mean to the consumer or to the producer?

Secretary FREEMAN. I meant to say, and I gather I misspoke myself, it would not necessarily increase the price to the consumer. I meant to say that it would, in all likelihood, increase the return to the producer and it would not necessarily increase the cost to the consumer.

The CHAIRMAN. Off the record.

(Discussion off the record.)

FEED GRAINS

Senator MILLER. Mr. Chairman, I would like to ask consent to have put in the record at the time of our discussion of the utilization and the new emergency program early in the record this afternoon, I would like to at that point insert a chart which I have prepared showing production of feed grains which I might say shows the combined increase in production for 1962, 1963, and 1964 over 1961 which was when the emergency program first went into effect, a total of 16.9 million tons.

I might point out that in this connection there is a decline shown for 1964 but that it was accompanied by unusually dry weather in major corn and grain sorghum producing areas.

The CHAIRMAN. Without objection.

(The chart referred to follows:)

Production of feed grains

[Million tons]

Item	1961	1962	1963	1964
Corn.....	101.5	101.8	114.6	99.4
Grain sorghum.....	13.4	14.3	16.4	13.7
Barley.....	9.5	10.5	9.7	9.7
Total.....	124.4	126.6	140.7	122.8

NOTE.—Combined increase in production for 1962, 1963, and 1964 over 1961 totals 16.9 million tons. It should be noted that decline in production for 1964 accompanied unusually dry weather in major corn and grain sorghum producing areas.

Senator MILLER. I have two questions that I would like to give to the Secretary and ask him to submit the answers at the same time that he comes over with the answers for Senator Mondale.

I might say that one of these relates to the establishment of national security reserves for commodities and the second relates to agricultural research particularly in industrial uses research.

Secretary FREEMAN. Very good.

The CHAIRMAN. Without objection, that will be done.

(The questions submitted by Senator Miller to Secretary Freeman are as follows:)

1. The President in his farm message to Congress dated February 4, 1965, stated:

“It is time to consider our requirements for agricultural commodities in a reserve for national security, for emergency relief purposes, and for domestic economic stabilization.”

If the Congress should establish such reserves for various commodities, particularly for those presently in surplus, what would be your recommendations?

Please state in terms of days or months of supply if feasible.

2. On page 16051 of the Congressional Record for July 13 I pointed out that only \$15,677,000 out of a total agricultural research program of \$173,219,000 is proposed for research in connection with industrial uses of agricultural commodities. With a view to improving the surplus problem, should not more money be added to the budget to increase the industrial uses research activities and provide a better balance between the production and consumption side of agricultural research?

The CHAIRMAN. Mr. Secretary, I presume that you will be able to answer the questions asked by Senator Miller as well as furnish to us the data that we asked for, let us say, by the middle of next week.

Secretary FREEMAN. Yes, sir. We will go right to work at it very promptly.

(The information is as follows:)

A subcommittee of the National Agricultural Advisory Commission reported on this problem last October. The report presented estimates of reserve levels which were developed primarily by the U.S. Department of Agriculture staff and served as a basis for discussion in the subcommittee. The subcommittee did feel that the reserve levels represented about the maximum amounts justifiable. They also stated “it is the view of the subcommittee that two levels of reserve supplies reflecting national security goals should be established.”

[Quantity in millions]

Commodity and unit	Tentative needed reserve level	Equivalent months supply at recent levels of disappearance
Wheat.....bushels..	630.0	5½
Rice, rough.....hundredweight..	9.0	1½
Feed grains.....tons..	45.0	3½
Cotton, all.....bales..	6.2	5½
Soybeans.....bushels..	100.0	12⅓
Edible vegetable oils.....pounds..	800.0	1⅓
Beans, dry.....do..	150.0	1
Lard.....do..	100.0	½
Dairy products:		
Nonfat dry milk.....do..	530.0	3
Butter (includes butter oil).....do..	100.0	¾
Cheese.....do..	380.0	2½
Flaxseed.....bushels..	8.0	3½

This report is not an official position of the Department of Agriculture, which is continuing studies on the problem.

RESEARCH ON INDUSTRIAL USES FOR AGRICULTURAL PRODUCTS

The 1966 budget estimates recommend \$33,403,000 for nutrition, consumer and industrial use research and development for the Department of Agriculture, of which is \$15,677,000 is for industrial phases. Most of this amount is for direct research and development related to such surplus agricultural commodities as wheat, corn, grain sorghum, cotton, dairy products, peanuts, etc. The 1966 budget estimates include as much for this research as can be effectively used at this time.

Senate Resolution 415, 87th Congress, 2d session, asked the Secretary of Agriculture to submit to the Congress and to the Director of the Bureau of the Budget “* * * the most effective program available for research to discover new uses for agricultural commodities.” The resolution limited the program to not more than \$35 million per annum above 1963 funds for utilization research. In response to this request a report was submitted to the Senate on March 20, 1963 (S. Doc. 34, 88th Cong., 1st sess.), outlining a plan for strengthening utilization research and development in both industrial and food uses. The program described in this report recommended new and expanded studies on nearly 200 different projects; new and expanded laboratory facilities; and intensified research through grants, contracts, and cooperative arrangements with agencies outside the Department of Agriculture.

For the most part these recommendations have been and are being implemented. The 1964 appropriation for the Department provided \$5 million for research to implement this report and also \$19 million for facilities, of which \$9,500,000 was for expansion of present facilities and \$9,500,000 for construction of an additional regional utilization research and development laboratory. Plans and specifications for most of these facilities are nearing completion. When the facilities are completed, utilization research and development can be further expanded along the lines proposed in Senate Document 34. In the meantime, the Department is using its present facilities to the extent possible for utilization research and also has expanded its contract and grant research in this field.

In addition, the Department is currently engaged in a review of the entire Federal and State agricultural research program. The results of this review will be forthcoming in about a year's time.

The CHAIRMAN. This concludes the hearing on the bills before us and the chairman will permit statements to be filed by interested persons through, let us say, Friday, tomorrow, at noon, and we express the hope that the Department of Agriculture can supply us with all of the data asked for today and in the past so as to have a complete record on the questions.

Secretary FREEMAN. Thank you, sir.

The CHAIRMAN. We want to thank you very much, Mr. Secretary. We will stand in recess until further order of the chairman.

(Whereupon, at 5:45 p.m., the committee adjourned subject to the call of the Chair.)

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